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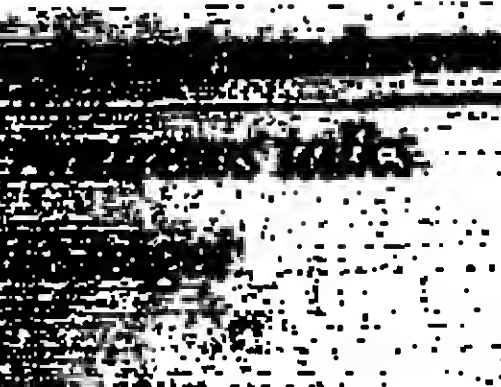
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FINANCIAL TIMES

Europe's Business Newspaper

MONDAY DECEMBER 19 1994

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Rolls-Royce to unveil supply deal with BMW



Rolls-Royce Motor Cars, known worldwide for the Spirit of Ecstasy figure (left) on its luxury cars, will today unveil a deal with BMW of Germany. Under the agreement, Rolls, a subsidiary of Vickers of the UK, will receive BMW components and technology to help cut the cost of producing its next generation of models. It is understood this includes BMW supplying Rolls-Royce with one of its most fundamental needs - a modern V12 engine to replace Rolls' current V8 power unit. Page 15

Berkusconi government on the brink The government of Italian prime minister Silvio Berlusconi looks almost certain to collapse in a confidence vote on Wednesday after the weekend defection of Northern League leader Umberto Bossi. Page 14

China warns over debt bail-out Chinese officials distanced the government from responsibility for the debts of state-owned companies after a series of foreign reports about difficulties over payments. Foreign investors were warned they could not count on the government bailing out projects that went sour. Page 14; China and Gatt, Page 13

US seeks closer ties with EU The US is proposing a stronger trade and economic partnership with the European Union. The US is keen to win EU support for stricter international disciplines on export subsidies, particularly the use of official aid to win big infrastructure contracts in the developing world. Page 2

Trafalgar House executives met advisers last night amid expectations that the UK conglomerate's bid for regional power company Northern Electric could be made as early as today. Page 15

Fear of organised crime set to grow Financial crime and fraud will replace terrorism as the most pressing security concern for international businesses, says report by Control Risks, a London-based international corporate security consultant. Page 14

Spanish stores chain in trouble Galerias Preciados, Spain's second-ranking department store chain, went into receivership with debts of Ptas64m (\$485m). Britain's Marks and Spencer has been discussing the acquisition of some of the stores and another British department store, Harvey Nichols, is also believed to be interested. Page 17

Criminals target bootleg boom British criminal gangs which run pub protection rackets are muscling in on the boom in cross-channel alcohol smuggling, according to Frank Nicholson, managing director of Sunderland-based brewer and pub owner Vaux. The gangs have pressed landlords to sell smuggled beer in their bars or turn a blind eye to its sale in pub car parks. Page 5

German hostel set ablaze Arsonists set fire to a German hostel for refugees from former Yugoslavia. A woman and two children were slightly injured, but nine other residents escaped unhurt from the building near the Dutch border.

Usher drugs bust Five people were being questioned after police and customs officers seized one of Northern Ireland's biggest hauls of cannabis resin.

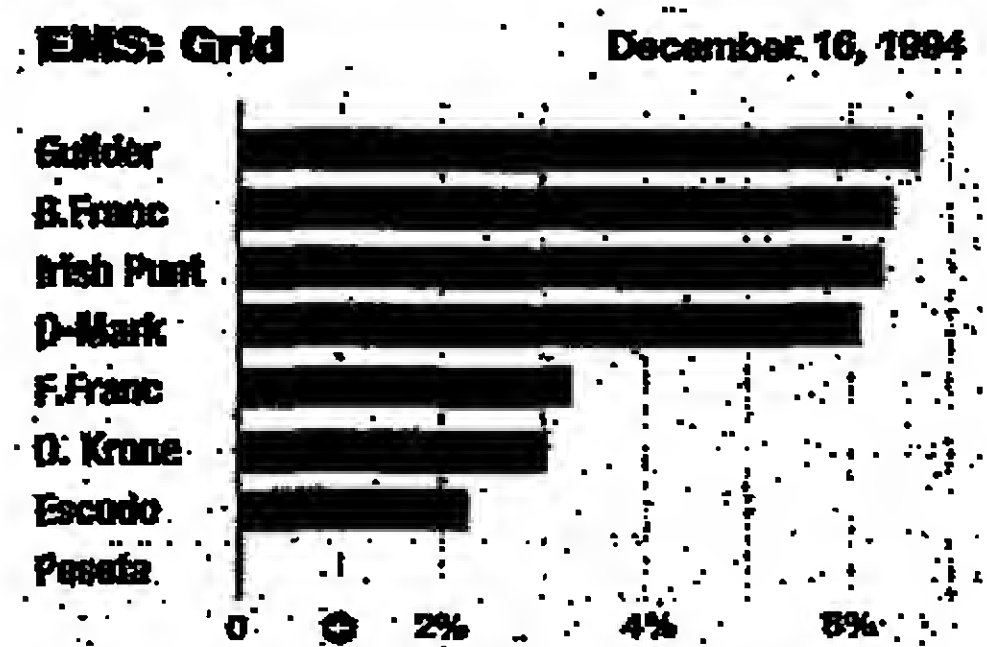
Court move likely on BCCI The High Court in London will today hear the latest plan for settling with creditors of the failed Bank of Credit and Commerce International. Any deal must be approved by courts in two other jurisdictions as well.

Iberia pilots to strike Iberia edged closer to bankruptcy when pilots at the beleaguered Spanish state-owned airline said they would strike from December 28 to January 3. Page 3

Hezbollah threatens Israeli targets Lebanon's pro-Iranian Hezbollah group responded to threats of Israeli military action by vow that its fighters would stage suicide raids on Israeli targets worldwide.

Lord Pitt dies Lord Pitt, one of Britain's first black peers and a tireless worker against racial prejudice, died after a long illness at the age of 81.

European Monetary System The Irish punt slipped marginally below the Belgian franc in the EMS grid last week, despite Ireland's getting a new government after a month of political uncertainty. This week the grid will focus on the meeting of the Bundesbank council. Currencies, Page 23



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Austria	9.36	Qatar	3.66	Malta	1.36	Costa	0.13	0.00
Bahrain	1.20	Hong Kong	1.00	Morocco	1.00	S. Arabia	0.11	0.00
Belgium	1.36	Italy	1.36	Norway	1.36	Singapore	0.24	0.00
Bulgaria	1.00	Japan	1.00	Poland	1.00	Slovenia	0.24	0.00
Cyprus	0.21	India	0.21	Romania	1.00	Slovakia	0.24	0.00
Czech Rep.	0.21	Ireland	0.21	Spain	1.36	Slovenia	0.24	0.00
Denmark	0.13	Israel	0.13	Sweden	0.13	Slovenia	0.24	0.00
Egypt	0.21	Italy	0.21	Switzerland	0.13	Slovenia	0.24	0.00
Ecuador	0.21	Japan	0.21	Taiwan	0.21	Slovenia	0.24	0.00
Finland	0.13	Jordan	0.13	Turkey	0.21	Slovenia	0.24	0.00
France	0.13	Kuwait	0.13	Ukraine	0.21	Slovenia	0.24	0.00
Germany	0.13	Lebanon	0.13	Yemen	0.21	Slovenia	0.24	0.00
Greece	0.13	Lithuania	0.13					

Saatchi given deadline to stay at advertising group

By Robert Peston in London

Ousted company founder consults brother on launching new agency

Mr Maurice Saatchi has been given until January 3 to decide whether to stay at Saatchi & Saatchi, the advertising group he founded 24 years ago. If he remains it will be in the largely honorary position of president and chairman of the subsidiary, Saatchi & Saatchi Advertising Worldwide.

After the boardroom coup, which on Friday night saw him ousted from the chairmanship of the company and removed from the board following a row over options, his friends said they

were sure he would sever all connections with the group. Mr Saatchi was this weekend discussing with his brother Charles whether they should set up a new agency. The chances of the brothers starting again are remote, according to a close colleague, who said: "After all the money they have made and at their age [on the case of 50], I don't think they really have the appetite for it."

Meanwhile, a senior adviser to the ruling Conservative party

suggested Mr Saatchi might be a candidate for the vacant post of head of the Prime Minister's Policy Unit. Saatchi & Saatchi holds the party's advertising account and devised the "Labour Isn't Working" campaign.

Mr Charles Scott, Saatchi's chief executive, will this week start the process of finding a new name for the company, after the board's decision to drop "Saatchi" from the holding company's identity.

Mr Scott will also try to stop

important clients deserting. The group is particularly worried about three accounts: Mars, the confectionery group, British Airways, and Mirror Group Newspapers, all of which were close to Mr Saatchi.

Such is Mr Saatchi's closeness to the Mars brothers, John and Forrest, that on Friday evening, when the board told him he was being removed, he contacted them in a last-ditch attempt to put pressure on Saatchi directors.

Mars, British Airways and Mir-

ror Group Newspapers contribute about 8 per cent of the company's \$800m (£1.2bn) annual revenue. The company therefore regards their potential loss as serious but not devastating.

Mirror Group is thought likely to keep its account with Saatchi unless it becomes unhappy with the agency's work. Mr David Montgomery, MGN chief executive, wrote to Saatchi's board last week to express his gratitude for Mr Saatchi's work over the years. However, Mirror Group sources

suggested Mr Saatchi's departure had little impact on its day-to-day relationship with the agency.

British Airways said yesterday it had made no decision on the future of its relationship with Saatchi & Saatchi.

A senior advertising industry executive said he did not believe all three would desert. "It is very difficult for them to leave, because it would require them to change their advertising campaigns, which they will be reluctant to do," he said.

Lex, Page 14
Letter, Page 12

Yeltsin threatened with choosing between bloodbath and 'betrayal'

Russia rejects peace talks offer from Chechnya

By John Lloyd in Moscow

The Russian government last night appeared to reject an offer of peace talks by Chechnya's President Dzhokhar Dudayev, who had sent a telegram to Russian President Boris Yeltsin.

The stalemate between the Russian and Chechen leaderships yesterday threatened not just the stability of other northern Caucasian republics, but also that of the Russian administration itself. In the week ahead Mr Yeltsin faces the agonising choice between committing troops to a bloodbath which may topple Gen Dudayev or seeking a compromise which may be seen by the army and Russian nationalist forces as a betrayal.

The Chechen offer of talks appeared to conform belatedly to Russia's demand that Gen Dudayev meet senior officials at the Russian military base of Moscow, near the Chechen border. Russia had demanded that Gen Dudayev negotiate an agreement on handing over weapons, and had set a deadline of midnight on Saturday for compliance.

Gen Dudayev had earlier insisted on meeting the Russian president, but Russia offered talks only with Mr Nikolai Yegorov, a vice premier, and Mr Sergei Stepanov, head of the Federal Intelligence Service.

Yesterday saw relatively light engagements between the Rus-

We are the liberators, say Chechens, Page 2

sian division to the north of Grozny and the Chechen forces - even though the Russian deadline had expired. However, a series of explosions was heard north of the city in the late afternoon, and nine Chechen refugees were reported shot dead by Russian soldiers.

The stalemate between the Russian and Chechen forces has seen a Russian general in the field, supported by some of his superiors, refuse to fight. The past week has also seen the splintering of Russia's liberal/democratic forces over the issue, and hostility or at best scepticism from the parliament towards the administration's actions.

A series of threats on the part of senior officials has not been followed in their promises of the fighting of three separate Russian deadlines.

In a publicity coup, Gen Dudayev has asked Turkey to mediate in the conflict, according to the Turkish foreign ministry. The ministry said he had sent a telegram to President Sileyman Demirel, saying he was willing to stop fighting and "find a peaceful solution" with Turkish help.

The ministry said Turkey had been first to voice its concerns over developments in Chechnya

and that "it has become obvious that Turkey's concerns were warranted".

Mrs Tansu Ciller, the Turkish premier, said in a separate message to Mr Victor Chernomyrdin, the Russian prime minister, that the Turkish people were worried about the fighting. The Chechens, like the Turks, are largely Moslem and had in the past been part of the Turkish empire.

The conflict has already provoked warnings from the Constitution of Chechnya, which aims to unite the region's republics, that if there is a war, "it would not be a Russian-Chechen war, it would be a Russian-Caucasian war".

Russian liberal deputies were still in Grozny last night, having held an all-night sitting on Saturday night with Gen Dudayev and his officials in an attempt to secure the release of Russian prisoners held by the Chechens. They claimed their presence probably helped avert an attack.

Mr Yeltsin sent troops to the mountainous region of about one million people after it had defied Kremlin rule for three years. Russian government officials say 14,000 Chechens have fled Grozny since the troops went in. Many headed for other autonomous regions in the Caucasus on Russia's southern rim.

We are the liberators, say Chechens, Page 2

Threat to aid for N Korea after US helicopter downed

By John Burton, Seoul correspondent

The US was trying yesterday to secure the return of a captured army pilot and the body of his co-pilot after their helicopter was shot down in North Korea, prompting US calls for a suspension of aid programmes.

The incident comes at an awkward time for both countries, following their recent agreement to halt Pyongyang's nuclear programme in exchange for the opening of diplomatic ties and economic aid.

President Bill Clinton said in a statement released by the White House that the helicopter had "strayed into North Korean airspace" on Saturday. He declared that the "tragic loss of life was unnecessary" and that "we are using all available channels to press for an early resolution of this matter".

The situation is potentially embarrassing to the US, as the helicopter appeared to violate the truce agreement that ended the 1950-53 Korean war. Aircraft from either side are not supposed to fly near the demilitarised zone

between North and South Korea, let alone cross it.

Mr William Perry, US defence secretary, said the helicopter, which was on a training mission, had strayed into North Korea due to a navigational error. North Korea claimed that it then shot down the helicopter.

Republican Senator Pete Domenici, chairman of the Senate subcommittee on North Korea, said yesterday that unless North Korea co-operated over the incident, the US should not hand over funds promised for building safer nuclear reactors.

Democratic Senator Daniel Patrick Moynihan was asked whether the helicopter issue should prompt the US to delay implementation of the nuclear deal. "That is exactly what the [North] Koreans should be asking," he replied. "They are not exactly in an enviable position, are they? Their dictator [the late President Kim Il Sung] is dead. Their economy is dead."

Analysts believe that North Korea may try to use the incident for propaganda purposes and to extract new concessions from the US. But North Korea is unlikely

to try to use returning the pilot as a bargaining chip as this would set back its efforts to improve relations with the US, while giving conservative US critics of the recent nuclear accord new grounds on which to oppose it.

North Korean officials have recently expressed concern that the new Republican-controlled Congress may try to block the nuclear pact, which critics believe offers too many concessions to Pyongyang.

The US has called for a meeting of the military armistice commission (MAC), which supervises the truce, to discuss the situation. But North Korea may refuse to attend it withdrew from the MAC earlier this year in an attempt to pressure the US to sign a peace treaty to end the Korean war formally.

Instead, North Korea may use the current visit to Pyongyang of Mr Bill Richardson, a Democratic representative from New Mexico, to arrange the pilot's release. Mr Richardson yesterday held talks with senior North Korean officials on the helicopter incident.



Russia's deputy emergency situations minister stands over the body of a Russian soldier killed in Chechnya. Photograph Associated Press

UK Tories hit by cut in business funding

By Peter Marsh in London

Britain's ruling Conservative party faces sharply mounting difficulties raising funds from its traditional business supporters.

A Financial Times investigation shows a steep fall in donations from Britain's biggest companies and a poor performance by the secretive nationwide fundraising network it has set up among business leaders.

A survey of Britain's largest 100 companies shows that donations to the Tories fell 34.3 per cent in real terms last year compared with 1988, an equivalent year in the election cycle.

The FT has also found that the network of business executives set up to fund the party is likely to fall well short of its financial targets this year, deepening the gloom surrounding Tory central office finances.

The party already has a £15m overdraft and is expected to face a struggle to break even in the financial year ending in March.

Up to half of the donations to the party's central office are channelled through a network of 10 regional industrial councils, each one comprising as many as 12 Tory-supporting business leaders.

In the past the network has provided up to £4m (\$6.3m) a year

Continued on Page 14
Fundraisers look worldwide, Page 5

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NEWS: INTERNATIONAL

Congress leaders outline tax cut scheme

By Nancy Durne
in Washington

Leading Republicans yesterday outlined an aggressive programme to cut both US government and taxes, promising to move swiftly in January to reduce spending before moving on to tax relief measures.

"We will do more in the first 100 days than has been done in the last 100 years in this town," Mr Dick Armey, the incoming House majority leader, said on television.

He and Congressman John Kasich, incoming House budget committee chairman, again attempted to seize the initiative from President Bill Clinton, who offered a tax reduction scheme on Thursday. They said the House, immediately after convening, would create an "American tax relief savings account" which would hold the savings from programme cuts to pay for tax reductions.

"Nobody on Main Street and no-one on Wall Street is going to think we're going to give out the goodies without cutting government first," Mr Kasich said. They would move immediately to lower previous budget caps and force appropriation subcommittees to make spending reductions. Those savings would go into the special "bank," Mr Kasich said.

Republican Senator Bob Packwood, incoming chairman of the finance committee, predicted Congress would pass a "balanced budget" amendment to the US constitution by April. He forecast this would win approval by the state legislatures next summer. Various versions of the amendment would require a balanced budget in five to seven years.

Senator Pete Domenici, incoming budget committee chairman, said there would be "a revolution in this country", with scores of programmes eliminated or cut.

"I've got the longest list in town," said Mr Armey, suggesting the Departments of Energy and Education could be eliminated and the Environmental Protection Agency severely reduced. The Republicans indicated a willingness to work with Mr Clinton. His tax cut plan would be considered, said Mr Bill Archer, a Texas Republican. "He came late to the dance, but he's on the dance floor and we welcome that."

They said they would back a temporary line item veto, for perhaps four to six years.

Kohl backs bombers for Bosnia

Chancellor Helmut Kohl will today throw his political weight behind a decision to send German Tornado fighter bombers to Bosnia by telling MPs that Germany owes it to its allies to become involved in former Yugoslavia, writes Michael Lindemann in Bonn.

In an interview with Bild Zeitung, Germany's best-selling newspaper, Mr Kohl appealed to deputies, who must approve any deployment, to set aside their party affiliations and listen to their consciences.

The cabinet is expected to decide tomorrow whether it will send the aircraft, medical facilities, engineers and naval units. Two German navy frigates are already part of a fleet enforcing an embargo. However, officials said Germany would continue to resist pressure to send combat troops.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone: +49 69 156 130. Fax: +49 69 156 4481. Telex: 416193. Registered in Frankfurt by J. Walter Brand, Wilhelm J. Bräse, Colin A. Kennard as Geschäftsführer and London by David C.M. Bell and Alan C. Miller. Printed by DVM Druck-Vertrieb und Marketing GmbH, Admira-Rosenstraße 34, 61234 Kiez (near the station) by Hiltner International, ISSN: 0950-0707. Responsible Editor: Richard Lambert, do The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of The Financial Times (Europe) GmbH are The Financial Times (Europe) Ltd, London and F.T. (Germany) Advertising Ltd, London. Shareholder of the above mentioned two companies is The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE: Publishing Director: D. Good, 188 Rue de Rivoli, F-75004 Paris Cedex 01. Telephone (01) 4237-0621. Fax (01) 4237-0629. Printer: S.A. Nord Editeur, 1521 Rue de Caen, F-93100 Romainville Cedex 1. Editor: Richard Lambert. ISSN: 0950-0707. Commissionaire: Paritane No 67908D.

DENMARK: Financial Times (Scandinavia) Ltd, Vimmelskædet 42A, DK-1161 Copenhagen. Telephone: 33 13 44 41. Fax: 33 95 35 35.

We are the liberators, say Chechens

The root of the conflict lies in the break-up of the Soviet Union, reports John Lloyd

Mr Usman Imaev, the Chechen minister of justice, sits in his office in a battle dress with grenades clipped to his belt, cartridge magazines curving out of his pockets and a Kalashnikov automatic on his fax machine.

"In March 1991," he says, "there was a referendum on the continued existence of the Soviet Union, in which millions of people voted, including in Chechnya, and it got a majority."

Then, in December 1991 three men, the leaders of Russia, Ukraine and Belarus, decided to break up the Soviet Union. Chechnya had no hand in that. We did not sign the federation agreement with other republics of Russia. We did not take part in the referendum on the Russian constitution. So when Yeltsin talks about unconstitutional acts - who began them?

Mr Imaev's words have a certain logic. Most obviously, President Boris Yeltsin recreated Russia from the ruins of a state which was internationally recognised and functioning.

By acting to break up the Union, he lays himself open to the charge to which all revolutionaries who attempt to establish a new order are subject: what gives them the right to say where the revolution stops? If such action was taken to liberate Russia, why cannot Chechens act in the same way to liberate Chechnya from Russia?

Second, Mr Yeltsin broke up a state which was multina-

tional. Even if Russian primacy was indisputable, the forms and many of the practices inscribed the equality of the races.

Now Russia has to remake herself according to Russian traditions - which are not even formally those of a Moslem mountain people like the Chechens, whose greatest pride is their long struggle against Tsarist colonisation.

In this knot of issues lies the root of the conflict, and of its importance to the Russian state and the future of its democracy and its reforms. Soviet communism gave Russia a cloak for prolonging imperialism and, at the same time, placed constraints on how it acted.

For those who liked Russia least - and the Chechens of all the peoples within Russia must take the prize for that - the new order is felt more as a burden than a liberation.

Thus when, three years ago, General Dzhokhar Dudayev, a Soviet air force general, roused his nation to independence from Russia, he was playing on strings of national consciousness which vibrated ever more strongly to his touch.

"In the first year of independence," said Mr Suleiman Khadjimuratov, a prefect of Vedenskoye region near the capital, Grozny, "many people were not sure what it meant. Now, no one will give it up."

The issue, it seems, tran-

sends the manifest personal and public failings of a leader who has helped reduce the Chechen standard of living far below that of much of the rest of Russia and reneged on all of his promises of a better life and greater security.

Gen Dudayev is not greatly admired by most Chechens for his achievements - save only that he established independence. That appears to be genuinely, widely, popular. The attempts by Russian leaders such as Mr Nikolai Yegorov, the Russian deputy premier who is the presidential representative for Chechnya, to paint the country as a nation of "slaves" terrified into acquiescence by Gen Dudayev's thugs, are wide of the mark.

Chechnya thus poses a fundamental challenge to Russian statehood. This anyway is fragile and incomplete, cramped within borders which, though still vast, are unfavourably truncated in the minds of most Russians accustomed to regard the Soviet Union as their free space.

In the minds of the Chechens, Chechnya is the historic land of their fathers.

For Mr Yeltsin, who has for three years delayed attempting to unravel, or cut, the Chechen knot, it is the sharpest issue since the parliamentary revolt against him in the summer and autumn of last year.

To cede Chechnya on the grounds that its people do not wish to be part of the newly recreated Russia is to call into question all of the lands and peoples conquered in the 19th century, and even before.

There is, besides, some truth in the propaganda put out by the Russian authorities on Chechnya.

It has been for most of the past three years a state in which criminal bands operated relatively freely and where the proceeds from vast amounts of oil were diverted. And it has been a region from which the Russians, and many others (including many Chechens) have fled in fear of the future or in disgust at a present in which their nationality is treated as a barrier to employment and advancement.

Two voices are battling for Mr Yeltsin's ear.

One is that of his security and military advisers and ministers, for whom Chechnya is the place where the rot stops and the crack of firm government is heard. It says that a chance must be grasped firmly to demonstrate to Russians, their neighbours and the world that the integrity of the Russian state cannot be challenged without a great cost being paid.

The other voice is that of the democrats and liberals, the majority of whom are horrified by the war, not so much because of what it will do to

Chechnya as because of what it will do to democratic institutions.

Mr Yegor Gaidar, leader of Russia's Choice and the most vocal on the issue, pleaded again with the president, with whom he is reluctant to make the final break, to pull back from an attack which would "destroy all you have achieved" in the way of reforms.

For Mr Gaidar and other reformers the coalition of forces mobilised to take Grozny at any price, emboldened by their success in making the president head of the war party, could sweep on to strike against the market and representative institutions.

Perhaps because of this cacophony of voices, Mr Yeltsin as of last night had not yet sanctioned the final push against Chechnya. Perhaps he cannot. After all, a sizeable part of the invasion force, that commanded by Gen Ivan Babichev, has stopped over 30 miles from Grozny and refused to move further.

However this affair ends, the Babichev challenge, with support from fellow generals Alexander Lebed of the Fourteenth Army and Boris Gromov, the first deputy defence minister, will have consequences which must be dealt with.

The Chechnya affair has not ended: it may only have just begun.

At stake are democracy, reform and the survival of the present administration. As 1994 runs out and the fourth year of the new Russia begins, these are all at hazard.



John Bruton: eager to see progress in Ulster talks

Road ahead for Irish premier is well signposted

By John Murray Brown
in Dublin

Mr John Bruton, Ireland's new premier, has a boyish candour which often makes him seem out of place in the wheel-dealing atmosphere of Irish politics.

Yet, after his more than 20 years in the Dail, there are few politicians with a more acute knowledge of the workings of parliament. At 47, and with a wealth of ministerial portfolios under his belt, the real question is whether he has the qualities of diplomacy and political toughness that Ireland needs at this watershed in its history.

Ireland is entering uncharted waters. The Northern Ireland peace process is at a critical juncture as paramilitaries enter exploratory talks with UK officials and unionists await the publication of the important joint framework document which London and Dublin hope will form the basis for all-party talks on Ulster's future.

Mr Bruton will enter the process at the head of an uneasy coalition of conservative and radical elements led by Fine Gael, an essentially conservative party, and including Labour, the party of modern European secular politics, and the Democratic Left, the successor of the Official IRA.

Personality problems may resurface. Mr Bruton believes he was let down when Mr Dick Spring, leader of the Labour party, went into coalition with Fianna Fail in 1982. The two politicians also squabbled over economic policy in the last Fine Gael-Labour coalition, which fell in 1987.

Today one key difference is that not only is there a shared determination to keep Fianna Fail out of office, but the economy's strength will make decisions on sensitive issues like public spending less divisive.

Mr Bruton's first task is to assert control over his own party machine. A challenge in the short term is unlikely but any slip could precipitate one.

The policy objectives are well signposted. On Northern Ireland, Mr Bruton's team will have to pick up where the outgoing government left off, while stamping its own character on the peace process. How he will balance the need to keep hardline republicans harnessed to the peace process, without compromising his sympathies for the northern unionists, is difficult to see.

In a deliberately low-key acceptance address to the Dail last week, Mr Bruton stressed his greatest concern was to see progress sustained. If the outgoing administration secured the peace, he said, his task would be to foster the "reconciliation" of the island's two religious traditions.

In the Forum for Peace and Reconciliation on Friday, his first meeting with Mr Gerry Adams, leader of Sinn Féin (the IRA's political wing), provided little more than a cursory handshake. Few believe Mr Bruton can replicate the rapport Fianna Fail enjoyed with the republicans.

Fine Gael, historically identified as the party which voted for the Anglo-Irish Treaty of 1921 which established partition, is still not comfortable with Sinn Féin.

But in Mr Pádraig De Rossa, Democratic Left leader, Mr Bruton will have a useful ally. A former IRA intern, Mr De Rossa provides ample evidence of the benefits that accrue to those republicans who abandon the bullet in favour of the ballot box.

On social questions like divorce and abortion there is more common ground between the parties.

Mr Bruton campaigned in favour of legalising divorce when it was last put to a referendum in 1986. All three parties seem agreed it may be over-ambitious to contemplate winning backing in a referendum on substantive reforms legalising abortion, although there may be a good chance of passing legislation on an abortion information bill allowing women to be referred by doctors to specialists outside Ireland.

Perhaps the area where there will be most strain will be on the economy. Mr Bruton's Fine Gael is the party of low taxation and tight spending. Labour and the more radical Democratic Left will want to take a more Keynesian approach, injecting spending into the economy to create jobs and reduce the burden of poverty for the lower paid and unemployed.

Mr Bruton's first test is to see a new budget through parliament. Democratic Left, in charge of the big spending social welfare portfolio, is expected to push for a mildly expansionary budget in an attempt to ease unemployment.

Mr Bruton's budget record is far from convincing. In 1982, when he was finance minister in Dr Garret FitzGerald's coalition, his attempts to impose VAT on child clothing and shoes was opposed by independents. This led to the defeat of his budget, and eventually the coalition's downfall.

Mountain conflict 'could spark unrest throughout north Caucasus'

Partisans prepare for guerrilla campaign

By Steve Levine in Grozny

If Russia's troops try to take Grozny by force they risk being drawn into a protracted guerrilla war in Chechnya's mountainous terrain which could spark unrest throughout the Islamic peoples of the north Caucasus, Chechen resistance fighters say.

In a village outside Grozny, Mr Ayub Khamzatov, a 30-year-old Chechen who is carefully placing pins into a set of hand grenades, says: "We have to get ready." Pointing to a stack of armour-piercing rockets, machine guns and Kalashnikov rifles lying a few feet away, he adds: "These are for Yeltsin."

As Moscow's ultimatum to the Chechen people expire, hundreds, perhaps thousands, of partisans like Mr Khamzatov are preparing to wage a guerrilla war. Along the roads out of Grozny are groups of fighters dressed in full battle gear huddling round fires of burning tyres to keep warm in the sub-zero temperatures.

"I have been ready to fight for a



A man reported to have been wounded in a shootout with Russian troops yesterday is carried to hospital by his colleagues

week but now we have been ordered to take to the mountains and fight a guerrilla war," Mr Khamzatov says, boasting of his skirmishes with Russian troops.

Many of Grozny's 400,000 inhabitants have already left for the mountains to the south. On Chechen television, bearded soldiers urge the rest of the population to leave the town to the troops.

They say the crowds of civilians, which have been mobbing Russian forces to persuade them to turn back, should move out of the way of fighting. One soldier reads from an instruction manual indicating the most vulnerable points of a tank.

Mr Khamzatov says his detachment of 150 men would fight for as long as it took to make the Russians leave. He says he has already moved his wife and

three children to seek shelter in the south.

"I have taken my belongings to the mountains. If I die, my son will get them," he says, standing in his house bare of all furniture except two beds, a load of weapons, and a television and video recorder on which he plays a tape of his brother's wedding celebrations. "Why cannot they let us live in peace. You see how good life can be?"

US seeks closer economic ties with EU

By Guy de Jonquieres

The US has proposed a stronger economic and trade partnership with the European Union, aimed at curbing the growth of subsidised export financing and co-ordinating policies more closely towards Japan, China and big emerging markets in the developing world.

According to a senior administration official, the proposal is intended to reassure the EU that the US has not sacrificed transatlantic relationships in its enthusiasm for closer trade links with Asia and Latin

America, and to seek practical ways of working together on shared commercial objectives.

The administration's thinking was outlined by Mr Ron Brown, US commerce secretary, at meetings in Brussels last week with Mr Jacques Santer, president-elect of the European Commission, and Sir Leon Brittan and Mr Martin Bangemann, respectively the commissioners for trade and industry.

The US has not decided what form the new partnership should take. But Mr Jeffrey Garten, under-secretary of commerce for international

trade, who accompanied Mr Brown, said it would demean the proposal to describe it simply as a free trade area.

He said the administration's aim over the next year was to elevate the European dimension of its international policies in several ways.

A top US priority was to win EU support for stricter international disciplines on export subsidies, particularly the use of official aid to win big infrastructure contracts in the developing world.

Though the administration has sharply stepped up support for exports, Mr Garten said its

ultimate goal was to reduce the role of governments in international markets. He was worried by Japan's united aid, which he said totalled \$15bn to \$20bn (\$9bn-£12bn) annually, almost half of it for infrastructure projects in China.

The US suspects the aid is used to favour Japanese companies and wants more information about how it is spent. Washington also wants international action to curb the use of bribes to win export orders.

Mr Garten said another important goal of the proposed dialogue with the EU was closer co-ordination of trade

policy in the new World Trade Organisation and other multilateral forums.

However, Mr Garten said this did not rule out further US bilateral trade initiatives, particularly towards Japan and China, where very vigorous action was likely.

The US also wants to seek ways of reducing obstacles to trade with the EU, particularly in the information industries. Mr Brown has proposed that the two sides should hold preparatory talks before a G7 meeting on telecommunications policy in Brussels early next year.

Turkey's rights record jeopardises customs union

Greek intransigence and anger at Turkish human rights abuses are threatening a crucial meeting in Brussels today between the European Union and Turkey.

EU foreign ministers, senior European Commission officials and a Turkish delegation are scheduled to take a final decision on establishing a customs union, due to come into force on January 1 1996.

But the sentencing earlier this month of eight Kurdish MPs to long jail terms for violating Turkey's strict security laws has crystallised opposition to the union in the European parliament and some national governments. Foremost among the opponents is Greece, which, after failing to persuade Germany, the EU's current president, to postpone today's meeting, appears determined to veto the deal.

Officials hope the meeting will still go ahead, with a decision postponed for a few

months to allow tempers to cool and negotiators time to reach a compromise. However, were the meeting to be cancelled at the last minute, there could be an angry confrontation between Turkey and Europe which would damage an already troubled relationship.

Ankara state security court's verdict on the MPs on the eve of the European Union's Essen summit could scarcely have come at a worse time. It embarrassed the German presidency, which had lobbied for customs union.

European Commission President Jacques Delors said in a French television interview that jailing the Kurdish MPs was "scandalous". He added he was against customs union without "guarantees" that Turkey would respect human rights.

Last Thursday the European Parliament adopted a non-binding resolution calling for today's meeting to be

suspended and demanding the jailed MPs' release. Support in some EU governments for Turkey all but evaporated after the trial.

To make matters worse for Turkey, a Kurdish human rights lawyer was murdered last week, and Ankara's secu-

lity court begins proceedings today against two human rights campaigners accused of violating anti-terrorism laws by writing a booklet on torture. The booklet was partly financed by the EU.

Greek opposition to customs union is linked more closely to the Socialist government's efforts to secure EU entry for Cyprus by the end of the 1990s than to its traditional hostility to Turkey.

Mr Andreas Papandreou,

and two thirds of its foreign investment comes from Europe.

Turkey would in effect join the single European market, with some of the rights and obligations of an EU member. Yet in contrast to the position of the post-communist countries of eastern Europe or even Malta or Cyprus, Brussels has told Turkey that membership is not on the agenda. It has twice rejected Turkish applications for full membership.

For Turks, who see themselves as Europeans, rejection is deeply wounding. They believe concern for human rights is a smokescreen for Europe's anti-Muslim prejudices.

President Süleyman Demirel says: "Turkey is a European country. Europe is not only a geographic area, but a system of values. I think Turkey should be part of Europe, it should not be ousted."

Prime Minister Tansu Ciller says customs union will "anchor Turkey to the west in a definitive and irreversible way". Rejection, she and many European officials argue, would halt Turkey's progress to full democracy. It would benefit extremists, marginalise democrats and stunt the economic growth that could foster stability.

However, Mrs Ciller bears great responsibility for Turkey's present predicament. It was she who urged parliament to lift the eight Kurdish MPs' parliamentary immunity,

allowing them to be prosecuted. Parliament has still not approved a political reform package her coalition government promised three years ago.

Yet diplomats believe a EU introduced into parliament on Friday creating a human rights ministry indicates that pressure from Brussels is having a positive effect.

But there is no sign of an end to violence in the mainly Kurdish south-east, where fighting between security forces and the Kurdistan Workers' party (PKK) has claimed more than 13,000 lives in the past 10 years. The battle against PKK guerrillas has entrenched the military's political power and is used to justify security laws that punish "crimes of thought".

As Mr Klaus Kinkel, Germany's foreign minister, who has supported customs union, put it last week: "If Turkey wants to join Europe, it must not turn a cold shoulder to everything Europe stands for."

A crucial meeting in Brussels today is under threat, write John Barham and Kerin Hope

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by lack of progress on reunifying Cyprus.

While the European Commission is committed to including Cyprus in the next EU enlargement, membership negotiations are likely to be complicated by the island's division into separate states.

However, France, which assumes the EU's rotating six-month presidency next month, is determined to see customs union adopted and will press Greece to abandon its objec-

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John Lloyd

Difficult choices ahead for Mercosur

Trade quartet must decide on direction after euphoria of pact, reports Angus Foster

Late-night summits often spawn hyperbole and talk of breakthrough, but the upbeat statements coming out of the colonial Brazilian town of Ouro Preto this weekend have a basis in fact.

The Mercosur trade group of Brazil, Argentina, Paraguay and Uruguay agreed to become a customs union from January 1. The decision, an idea which four years ago was dismissed by many as politically inspired and wishful thinking, will create the world's second largest customs union, linking economies with a combined GDP of about \$800bn (\$490bn) and 200m consumers.

Mr Fernando Henrique Cardoso, Brazil's president-elect, described the agreement as a "historic landmark", while President Carlos Menem of Argentina said its effects would be "highly positive" for the four countries' economies. Both men marvelled at the achievement, remarkable given that relations between Brazil and Argentina have until recently been poor and that their economies for decades encouraged protectionism.

Despite the celebrations, some difficult choices lie ahead. The partners must decide whether to push on towards a common market with free movement of labour and capital, or whether to concentrate on leading South America's integration with NAFTA in the planned Free Trade Area of the Americas (FTAA). Mercosur's success also threatens to concentrate investment in the richer areas



'Historic landmark': (left to right) Uruguay President Luis Alberto Lacalle, Brazil's Itamar Franco, Juan Carlos Wasmosy of Paraguay and Argentina's Carlos Menem join hands after the weekend pact

of Brazil and Argentina, two countries which already suffer from dangerous differences in regional wealth.

According to diplomats, the catalyst for agreement was the decision to allow sensitive and less competitive products temporary exemptions from the free trade regime. For trade between the four countries, where tariffs have been falling since 1991, less than 10 per cent of trade will get the special exemptions. However, these products, ranging from Argentine peaches, will have their tariffs

reduced to zero by 1999. With the common external tariff (CET) covering trade with countries outside the area, less than 10 per cent of products will have an exemption from the tariff. In these cases, governments have until 2001 to apply the CET, whose average rate for all products is 14 per cent. Two sensitive areas, cars and sugar, will also be excluded until the next century.

A second important reason for agreement was the recent, and still fragile, economic recovery of Brazil, which has

seen its monthly inflation rate fall from 50 per cent in June to less than 3 per cent this month because of a new currency, the Real.

Now the four countries must decide how much further to go. The Protocol of Ouro Preto, which gives Mercosur a legal status and lets it negotiate with other trade groups such as the European Union, also commits the partners to review by 2001 whether they want a full common market. Predicting the outcome is difficult, especially since Argentina holds presidential elections

next year, and Brazil in 1998. Until the review, the two main partners are determined to limit the growth of Mercosur's institutions. A Uruguayan proposal to establish a supranational court to rule on trade disputes was opposed by Brazil and Argentina, which feared their sovereignty would be diluted. Mercosur's secretariat will remain a small, administrative organ, and policy and decisions will remain with the four governments.

Despite these intentions, however, closer integration is likely to lead to stronger Mercosur institutions and devolved sovereignty.

In place of a court, the countries agreed over the weekend to set up an arbitration tribunal. A Brazilian-Argentine proposal to merge their automotive industrial policies by 2000 also implies the ceding of national interests to those of Mercosur.

Mercosur officials talk of the next few years as a time of "deepening" integration. But an important distraction is the 2005 deadline for a continent-wide free trade area, which was agreed at the recent Summit of the Americas and which will involve a convergence of existing trade blocs like Mercosur, NAFTA and the Andean Pact countries.

Mercosur has already opened talks with Chile and Bolivia about their joining the free trade area rather than becoming customs union members. Mercosur is the natural negotiating partner for NAFTA, especially if relations continue to improve between the two biggest countries, the US and Brazil. However, there are real limits to Mercosur's further expansion. Some countries such as Venezuela want to establish links, principally to reduce their reliance on US trade. But Caracas is closer to Miami than Mercosur's main centre, between São Paulo state in Brazil and Buenos Aires.

The expanse, and poor communications, of the Amazon are also a barrier to further integration between north and south of South America.

WORLD NEWS DIGEST

Iberia pilots to strike on pay cut

Iberia, Spain's embattled state-owned flag carrier, inched closer to bankruptcy over the weekend when its pilots' union said they would strike over the peak holiday period between December 28 and January 8.

The pilots have rejected a viability plan backed by Iberia's other unions to salvage the crippled airline. The plan involved pay cuts of 15 per cent for the pilots, and their union said it was only prepared to negotiate salary cuts if Iberia's management was replaced. The confrontation means the management may introduce a more drastic restructuring plan involving large-scale redundancies among the airline's 25,000 labour force and the sale of some of its subsidiaries.

Iberia, which has debts of Ptas4bn (\$248bn) half of which are short term, has written off accumulated losses of Ptas14bn, reducing its capital and reserves to a mere Ptas5bn. The airline is on course to lose Ptas4bn this year and the company said yesterday the pilots' strike would cost Iberia at least Ptas10bn in lost revenue. *Tom Burns, Madrid*

Former Banesto chief quizzed

Mr Mario Conde, former chairman of Banco Español de Crédito (Banesto), is to be questioned today by a Madrid high court judge who on Friday ordered the imprisonment of Mr Arturo Román, the bank's former deputy chairman.

Mr Román was arrested and refused bail by Judge Manuel García Castellón after two days of questioning in connection with a fraud probe into the banking group, which collapsed a year ago. Legal officials said the questioning centred on about Ptas1bn (\$24.3m) allegedly defrauded from Banesto shareholders.

Mr Conde was indicted on fraud charges last month. He became chairman of Banesto in 1987, and was dismissed by the Bank of Spain last December, together with his fellow Banesto directors, after an official inspection discovered the banking group had overvalued its Ptas7,000bn assets by Ptas500bn. *Tom Burns, Madrid*

Carter starts peace mission

Former US president Jimmy Carter yesterday began his peace mission to Bosnia to try to break the diplomatic deadlock among the warring parties. As his visit got under way, defeated Bosnian-government troops were withdrawing from Velika Kladusa, a strategic town in the north-western Bihac pocket which fell to Serb and renegade Muslim forces.

After meeting President Franjo Tudjman of Croatia, Mr Harris Silajdzic, the Bosnian prime minister, and UN officials in the Croatian capital Zagreb, Mr Carter left for Sarajevo amid tight security. Today he is to meet Bosnian Serb leader Radovan Karadzic in Pale, the Serb mountain stronghold above Sarajevo. *Laura Silber, Belgrade*

Russia signs energy charter

Russia has overcome long-standing reservations and joined 45 other nations in signing a European Energy Charter designed as the single most important instrument for stimulating the integration of former eastern bloc economies into the world market. However, the US declined to sign the treaty in Lisbon on Saturday, mainly because it considers the charter fails to guarantee adequate protection for investors and falls below standards already obtained by the US in bilateral and other multilateral investment agreements. The treaty provides free and equal access to energy markets among the signatories. *Peter Wise, Lisbon*

BAT nears American Tobacco takeover consent

By Richard Tomkins
in New York

BAT Industries, the British tobacco and financial services group, looks well placed to win a US court's consent this week for its planned \$1bn (\$600m) takeover of American Tobacco, the fifth biggest US cigarette maker.

Over the past two weeks the US Federal Trade Commission has been arguing in a New York court that the takeover should be blocked on compe-

tition grounds because BAT already owns Brown & Williamson Tobacco, the third biggest US cigarette maker.

The case closed last Wednesday with the judge reserving his decision, so neither side yet knows the outcome. But lawyers for the Federal Trade Commission acknowledge that BAT seems to have come out ahead.

Mr Merlin Orlans, who represented the FTC during the hearing, said that the judge had clearly not been disposed towards the FTC's arguments. During the hearing, the FTC argued

that the US tobacco industry was already highly concentrated because it had only six participants. If two of the participants combined, competition would be further reduced and it would become easier for the remaining participants to raise prices.

BAT countered that a merger of Brown & Williamson with its 11 per cent market share and American Tobacco with its 7 per cent share would increase the combined company's ability to compete with Philip Morris and R.J. Reynolds Tobacco,

the two industry giants, which together account for 70 per cent of US cigarette sales.

The FTC appeared to start the proceedings with a strong case, but as the hearing progressed, it became evident from Judge Milton Pollack's grilling of key FTC witnesses that he was far from convinced by the FTC's arguments.

Judge Pollack is thought likely to announce his decision tomorrow or Wednesday. But the FTC and BAT may yet reach a settlement before

then under which the FTC would drop its opposition to the takeover.

For the FTC, a compromise would be better than an outright defeat. For BAT, an agreement would eliminate the likelihood that the FTC, if defeated, would further delay the takeover by lodging an appeal.

One compromise that the FTC and BAT are understood to have considered would involve an agreement by BAT that it would shed an American Tobacco factory and some of its brands if the takeover went ahead.

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NEWS: INTERNATIONAL

China seeks to resolve copper dispute

By Tony Walker
in Beijing

The China International Trust and Investment Corporation said yesterday it was committed to a "reasonable solution" in its dispute with London Metals Exchange copper traders and other creditors over non-payment of copper trading losses totalling \$30m-\$40m.

In Citic's first detailed comment on the dispute, which dates back to early

this year, a spokesman attributed the problems to dealers associated with the organisation's Shanghai branch acting without the knowledge or authority of Citic itself.

Mr Xu Xiwel, a senior adviser to Citic Shanghai, said two dealers and two managers, including the former president, had been charged with corruption and detained.

The Citic official, however, did not commit the organisation to a settlement.

The official said that this would depend on the outcome of meetings to be held soon in London.

But he noted that Citic Shanghai was "an independent legal entity under the law of China" and was therefore responsible for its own profits and losses.

Mr Xu said an international accounting firm had been entrusted with responsibility for investigating the losses and suggesting solutions. "I sincerely hope all parties concerned

will find a reasonable solution through friendly consultation," Mr Xu said.

He blamed creditors, including western banks, for lax procedures in their efforts to assist Citic Shanghai to overcome its trading losses.

"I must respectfully point out that certain foreign counterparts have got some screws loose in their own house," he said. "In other words, what they have done has to some extent assisted such a thing happening min-

tionally or intentionally."

Mr Xu said that credit had been extended to Citic's Shanghai branch equivalent to "five or six times equity." This was done without notifying Citic headquarters, let alone requiring any guarantees from Citic.

"Any counterpart, if he is prudent, should have related extension of credit to Citic Shanghai's capacity and in line with China's relevant laws and regulations governing foreign exchange."

Banks scramble for Shanghai's prime sites

Tony Walker analyses the municipality's disposal of the city's sought-after waterfront properties

Bank of China is renovating No 7 on the Bund, Banque Indosuez has signed a letter of intent to purchase No 29, and the Bank of China is repurchasing its old headquarters next to the Peace Hotel.

After a hiatus of more than a year, the Shanghai municipality is moving on the disposal of the prime waterfront properties on the city's waterfront, the Bund.

The Shanghai Stock Exchange has indicated an interest in purchasing the most prominent landmark on the waterfront - the former headquarters of the Hongkong and Shanghai Bank. The SSE's

expression of interest may prompt a bidding contest since Hongkong Bank itself is keen to move back into its 27,000 sq m premises, now used as the mayor's office and Communist party headquarters.

The establishment of the Shanghai Bund Buildings Function Transformation Corporation has created a vehicle for the sale of 37 properties in an area the Chinese have taken to describing as Asia's Wall Street, although a revolution in the financial sector will be necessary to realise the dream of restoring the Bund to its former glory.

At the same time, across the Huangpu River, on the east bank, work is advancing on creating a separate "finance district" that will be linked with the Bund by underground railway, pedestrian tunnels, and bridges to create a central business district of Shanghai.

Mr Zhang Zhe, vice general manager of the Shanghai



Lujiazui Finance and Trade Zone Development Company, is confident that marriage between the old and the new can be effected to the advantage of both. "The two banks of the Huangpu can help each other and pull each other forward," he says.

Lujiazui Development was formed in 1992 to develop a 1.51 sq km site in the Pudong development zone, including 50 buildings, among them offices of China's big specialised banks, insurance companies and investment corporations. A new securities exchange is also under construction, and space is being set aside for residential facilities.

Mr Zhang estimates development costs for the site, including buildings and infrastructure will run to about \$4bn, of which \$1bn has already been committed. Twelve buildings are actually under construction, and 20 are in the



OBJECTS OF DESIRE: Properties along Shanghai's waterfront, the Bund

advanced planning stage.

The Lujiazui finance and trade zone, as the financial district will be known, will be dominated by three skyscrapers, including a Ministry of Foreign Trade and Economic Co-operation structure rising 88 floors. If the planners' dreams are realised, one of

Asia's more remarkable developments will rise from marshy ground in place of a jumble of decaying godowns, crumbling houses and the odd paddy field.

Western bankers in Shanghai welcome plans to create a central business district spanning the Huangpu and envisage no great problems in the city creating a business core bisected by a big waterway. The Huangpu, which runs into the Yangtze near its mouth, accommodates an enormous amount of shipping traffic.

Mr Fiepkopf Klug, chief representative in China of Banque Indosuez, sees no reason why

the "heart of the city" should not span the Huangpu "like the left and right bank in Paris".

But in common with his colleagues from other banks interested in returning to their homes on the Bund, Mr Klug is extremely circumspect about prospects of securing their old properties, and even more reticent on the issue of price.

Banque Indosuez, he says, has signed a letter of intent which is no more at this stage than an indication of an intention to discuss re-acquisition. "We would see our return to the Bund as an indication of confidence in the development of Shanghai and in the future of China," he says, "but the final decision has to be taken on the basis of price."

Other organisations, such as Hongkong and Shanghai Bank, eyeing their former Bund properties covetously, are even less forthcoming. Mr Richard Gra-

ham, chief representative in Shanghai of Baring Securities, said there were "political sensitivities" over the prospect of companies such as Hongkong Bank returning to their former "hunting lodges" on the Bund, from which they were unceremoniously ousted after the 1949 revolution.

Hongkong Bank is said to have been asked to pay between \$150m and \$200m for its former headquarters, but there is also no doubt that the symbolic value of acquiring the property would be almost incalculable. However, Mr Wei Wenyuan, general manager of the Shanghai Stock Exchange, said its present location was insufficient for its fast-growing business.

The SSE is at present operating from a converted former hotel, but is building a new exchange in the Pudong area. According to a Chinese news agency report, the SSE wants

the old Hongkong Bank site to "get a foothold on the Bund which is to become the symbol of Shanghai as an international financial centre".

While the larger western institutions continue to play a game of cat and mouse with the Shanghai authorities over price and leasehold terms, a Thai bank has quietly stolen a march.

The Bangkok Bank signed a 30-year lease in October, 1993 on No 7 and renovations are well under way.

Mr Chait Tanjassanant, chief representative in China, said negotiations with the owner, Chang Jiang Shipping, had been completed in a "few months".

Facilitating the sale was the fact that the building was solely owned by the shipping company, avoiding ownership complications affecting other properties.

For most of the properties, the owner is the municipality, and complex commercial and political considerations are involved in the sale of these historic sites have weighed heavily.

Delays are attributable in part to an argument within the local government over the best means of disposal - whether by auction, tender or private treaty.

One awkward issue not being addressed in talks on re-acquisition, at least not publicly, is the curious happenstance that the former owners are being obliged to lease back, for substantial sums, properties that belonged to them in the first place.

Leadership of ANC admits party disarray

By Mark Suzman
in Bloemfontein

The top leadership of the African National Congress has acknowledged that the party is in organisational

disarray and was unprepared for the demands of becoming the dominant partner in South Africa's government of national unity.

In his official report to the ANC's triennial conference in Bloemfontein yesterday, Mr Cyril Ramaphosa, ANC secretary general, said the party had not sufficiently prepared itself for dealing with the bureaucratic tasks of government. As a result, the slow flow of new legislation, combined with ineffective policy implementation by a recalcitrant bureaucracy, had delayed delivery on the party's election promises.

In a well-received address to 3,000 ANC delegates from around the country, Mr Ramaphosa also admitted that the party's paid-up membership had dropped off sharply following the April election, and that unmet debts incurred during the election campaign had led to the use of fewer full-time party officers. However, he said he expected the conference to agree on a new membership structure to help combat this as well as cutting the excessive workload for top party officials.

The admissions are an acknowledgement by the ANC of some grassroots dissatisfaction with the slow pace of change since it came to power following the country's April elections.

Still, the conference seems likely to accept a proposed strategy document presented yesterday by deputy President Thabo Mbeki, which puts forward a generally moderate political line and calls for a national consensus on economic policy centred around opening the South African

market to increased trade and capital flows to boost local investment and productivity.

However the wide-ranging document notes that, while the ANC needs to improve its standing among whites, its primary focus should be the needs of the country's black community. It also says that the bureaucracy, army and police force should be rapidly transformed to make them more representative in terms of both race and gender and more accountable to government.

Both Mr Ramaphosa and Mr Mbeki's speeches followed the line set in President Nelson Mandela's opening address to the five-day conference on Saturday, when he admitted that the pace of change had been slow, but insisted there were no short-term solutions to the entrenched problems South Africa faces. "Ours is not a programme of quick handouts but one for serious and lasting transformation," he said.

Mr Mandela also went out of his way to defend the ANC's commitment to fiscal discipline and economic reform against radicals calling for faster change. He insisted that such policies were "neither luxuries nor requirements foreign to the ANC's own policies", stressing that they represented the best way of achieving sustainable growth.

In this light, Mr Mandela said that given the difficulties of governance and delivery, the ANC should make more of an effort to explain to people the reasons behind unpopular decisions. "This is the best antidote to attempts by opportunists of all hues to gain popularity on the basis of radical-sounding but impractical propositions," he said.

The president reiterated that one of the main obstacles facing the government's economic programme was the preponderance of economic power in white hands. This, he said, led to "attempts to discourage new entrants and foreign investors because the cartels over-charge society for competition".

Israel reviews plan for stock market tax

By Julian O'Connell in Jerusalem

Israel's cabinet yesterday reviewed controversial government plans to tax stock market profits from January 1, as debate over economic policy widened. Mr Yitzhak Rabin, Israeli prime minister, met key economic officials after senior cabinet ministers launched a campaign to have the tax scrapped, amended or postponed.

Since the unpopular capital gains tax was announced earlier this year analysts say it has contributed to the continuing weakness on the Tel Aviv Stock Exchange and calls have been growing in Mr Rabin's Labour party for it to be abolished.

The Mistanim two-sided index has plunged almost 30 per cent from 240-250 points last year to a current level of 170-180 points and shows little sign of a quick recovery. The continuing weakness of the market has placed severe constraints on the government's privatisation programme and the ability of private companies to raise capital.

The abolition campaign has been led by Mr Shimon Shetret, economics minister, who has argued the tax is a big factor in Labour's recent decline in the opinion polls. A recent Gallup poll showed that 38 per cent of those polled opposed the tax while 39 per cent supported it. The same poll showed 58 per cent of

investors in the stock market wanted the tax scrapped.

Mr Shetret has called the tax "absurd and draconian" and said it would hurt the small investor most. The right-wing Likud opposition party has also condemned it. A private member's bill to scrap it was defeated 36-26 in parliament last week.

Mr Abraham Shochat, minister of finance, has warned that any attempt to abolish the tax would send negative signals to investors about government economic policy. He says the tax brings Israel into line with other countries and will be structured to allow deduction of losses, and has strongly criticised opposition to the measure based on political considerations. General elections are due in November 1996.

"Zigzagging on the issue, speculating as to what will happen in 1996, and flinching because of political intrigue and fears, all mean fleeing responsibility," he said last week. "The leadership of a country is evaluated according to its determination, its backbone and its trustworthiness. Popularity ratings and political intrigues should not determine what needs to be done."

The tax has been strongly supported by Mr Jacob Frenkel, Bank of Israel governor. However many Labour members feel Mr Rabin is open to persuasion and could agree to postpone its implementation or amend it.

Taiwanese eye China warily

TAIWAN

By Laura Tyson

"Will smiling Slew take off the white gloves?" asks a headline in yesterday's *Independence Evening Post* in Taiwan.

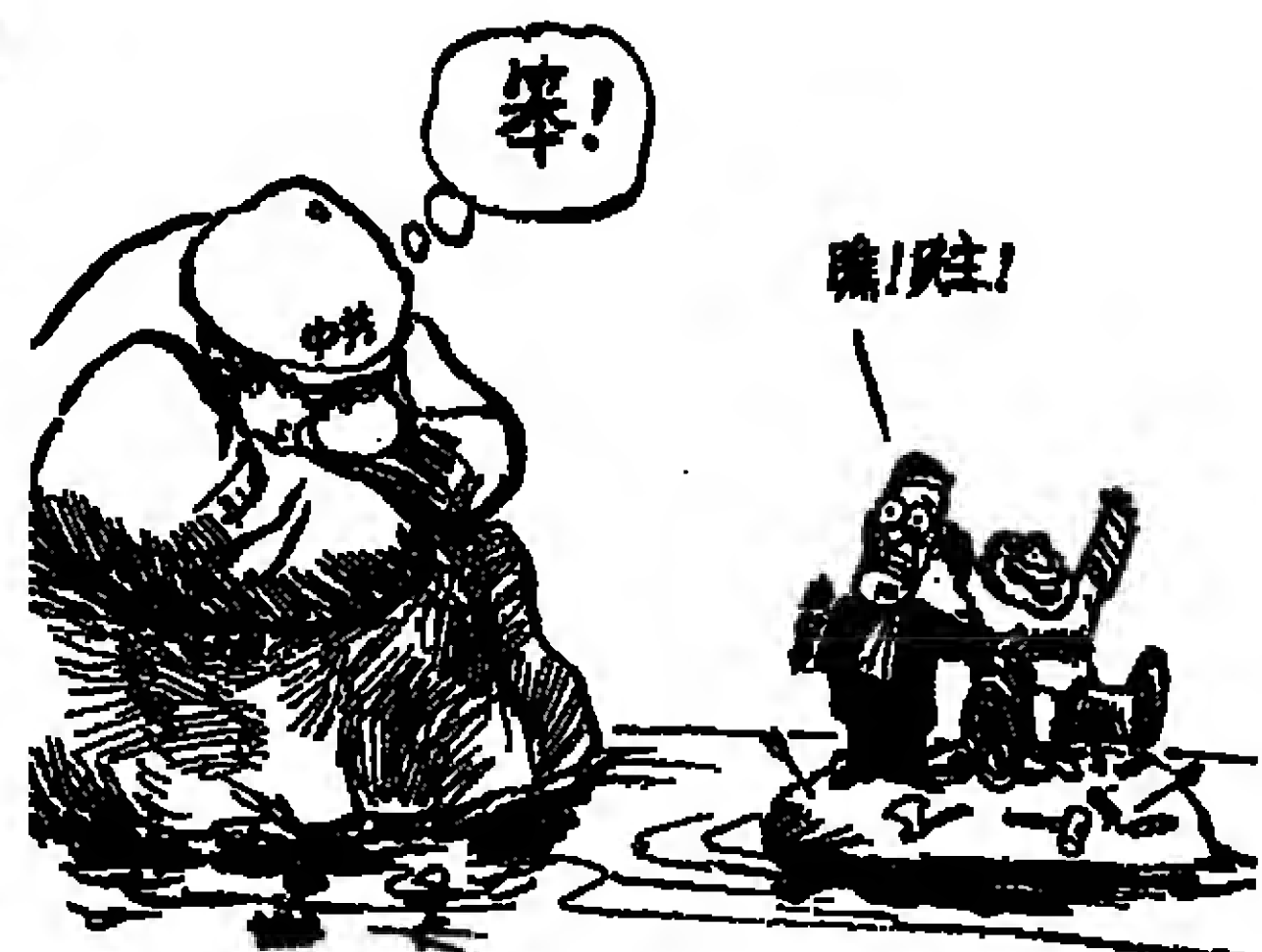
The respected liberal daily refers to the island's intricate arm's-length post de facto with China. Mr Vincent Siew, renowned for his ever-present grin, was put in charge of shaping the island's policy toward its giant neighbour and ostensible rival in a cabinet reshuffle last week.

The question embodies both the hopes and dreams of Taiwanese, who find themselves variously fearing an invasion by the People's Liberation Army, dreaming of a return to the ancestral fold and planning how to plunder the El Dorado of the orient.

It also reflects the chief fear of many ordinary Taiwanese: that of being involuntarily absorbed by China, which views Taiwan as a rebellious province and threatens to use force if the island should formally declare independence.

Most countries accept Beijing's view and do not accord diplomatic recognition to Taipei.

"Given Siew Wan-chang's background in trade and economics, in the future, cross-strait commerce will take precedence over politics, and some people find this disturbing," the article says. During his previous brief as economic planning minister, Mr Siew drafted a plan to transform the island into a regional business hub. Press reports suggest that



Taiwan's President Lee Teng-hui says, "Look! We have democracy!" The Chinese response (left): "Stupid!"

he has been brought in to head the Mainland Affairs Council to carry out that plan.

The missing link - literally - in Taiwan's grand ambition to become a regional centre for business, finance and transport is direct shipping and flights to China, banned by Taipei since the Kuomintang government fled to the island after losing China's civil war in 1949. Businessmen who have investments in China and are forced to travel back and forth via Hong Kong see things differently from the average Taiwanese.

In a Sunday editorial, the *Commercial Times*, a financial daily which broadly supports government policy, wrote in favour of the Economic Planning Ministry's suggestion to create an "offshore transport

centre" which would be used to establish direct shipping and air links with China.

"From an economic point of view, direct cross-strait transport would save time and money and promote development of two-way trade and economic development on both sides," the paper argued.

The pro-government *China Times*, in an editorial published yesterday, said the Kuomintang would be likely to step up economic ties with China, possibly opening direct links, in order to gain support in crucial legislative elections late next year and first-time presidential elections slated for early 1996.

"The iron votes have rusted," the paper said in a reference to the loss of once loyal supporters to opposition parties.

ties. "Faced with upcoming elections... what other more effective card does the ruling party have to play?"

But in a letter published last week in the *United Daily News*, which is seen as being more closely aligned with the Kuomintang faction whose members came from China in 1949, a Shanghai-based Taiwanese businessman wrote: "Many people believe that Taiwanese

Taiwanese fear invasion, dream of a return to the ancestral fold and plan how to plunder the El Dorado of the orient

businessmen support direct links, but actually that is not so. If direct links were opened tomorrow... like a magnetic force, Taiwan would be swallowed alive."

But the issue of direct links will become, in practical terms, a moot point in 24 years in any case, as the *Economic Daily News* hinted in an editorial last week. "The 1997 deadline for Hong Kong is forcing us closer by the day. In the past we could avoid dealing with the direct links issue... but soon we will be compelled to face [China] directly," the paper warned. The British colony reverts to Chinese sovereignty in 1997.

Blackouts in Algiers after saboteurs hit power supply

Algiers has suffered serious electrical power difficulties for three days because of sabotage to the Algerian capital's power supply, according to Algerian officials, Agencies report.

A "serious incident" cut power last Wednesday night and remaining power was being rationed among city districts, Sonelgaz, the state-run electricity supplier, said at the weekend. The problem could continue for some time, it added.

Government officials, who

refused to be named, said five towers carrying electricity lines had been blown up in Zemmouri, east of Algiers. There was no claim of responsibility by last night.

Algerian television reported that a big food warehouse supplying Algiers, Boumerdes to the east and Tipasa to the west was destroyed by armed men who planted bombs and set it on fire.

According to the television, monitored by the BBC, an unidentified group of some 40

attackers planted the bombs throughout the building, which contained huge stocks of dried milk, medicines and domestic electrical appliances.

Algeria says more than 10,000 people have been killed in the civil strife since January 1992 when the authorities cancelled a general election that fundamentalists were poised to win.

Sabotage has accounted for \$2bn in damage between February 1992 and December 1993, according to the government.

All white-collar criminals in Malaysia to be caned

By Kieran Cooke in Kuala Lumpur

The Malaysian government says it will make caning a mandatory punishment for white-collar crimes.

Mr Syed Hamid Albar, the law minister, said white-collar crime had grown considerably in recent years and accounted for 16 per cent of all crimes reported. However, white-collar criminals did not cause their victims physical injury so the canings administered to

them would not be as severe as those delivered to other violent offenders.

Mr Hamid said businessmen, bureaucrats, company employees and lawyers were among those convicted of crimes. Caning in Malaysia and Singapore is carried out with a thick bamboo stick or rotan and causes intense pain, often splitting the skin.

The Malaysian cabinet also approved a plan to do away with all trials by jury because of increasing difficulty in find-

ing juries for long trials.

Malaysia's GDP grew by an annual rate of 8.9 per cent in the third quarter of the year, according to Mr Anwar Ibrahim, the finance minister. In each of the two previous quarters GDP grew by 8.3 per cent on an annualised basis. Mr Anwar said inflation in the third quarter had moderated to 3.2 per cent. However last week Malaysia's central bank said inflation for the first 10 months of the year was 3.7 per cent.

Eritrea struggles to rebuild as aid meeting begins

Pledges by donors are likely to be generous, writes Leslie Crawford

Eritrea, Africa's newest nation, will hold its first donors' conference with the World Bank and western governments in Paris today and present its masterplan for rebuilding a country emerging from more than a quarter century of civil war.

"Our global needs are tremendous," Mr Haile Woldemariam, Eritrea's finance minister, said yesterday, declining however to place a figure on Eritrea's aid requirements.

"Every sector of the economy was affected by the war, but we also want to be realistic and take into account the financial constraints of the donor community."

The Eritrean People's Liberation Front has been running the Red Sea state since it defeated the Ethiopian occupation forces in May 1991 following a 30-year liberation war. But Eritrea only became a fully-recognised sovereign state after a referendum on independence from Ethiopia in May 1993.

It took another year before it could join the World Bank and the International Monetary Fund, hence the delay in seeking international assistance for its reconstruction efforts.

Government officials such as Mr Haile still work without pay. So do the teams of navvies, former combatants awaiting demobilisation - who have been rebuilding the bomb-damaged port of Massawa and the country's few dilapidated roads.

In the countryside, villagers trek for miles to build small dams and stone terraces on food-for-work projects.

Millions of tree seedlings are being grown in nurseries, ready for planting to help fix the soil on the eroded hillsides.

The donor community is impressed by the single-minded tenacity with which Eritreans have gone about the task of forging a new nation. The aid pledges at the Paris meeting are expected to be generous.

But Eritrea, which inherited no external debt upon independence (President Meles Zenawi of Ethiopia, himself a former guerrilla fighter, agreed to

shoulder the debt obligations of his country's former province), is wary of falling into the trap of aid dependence which afflicts the rest of the continent.

"We want to establish a new approach between donors and the recipient country," Mr Haile said. "Development programmes and priorities should be established by Eritreans, not by the donor community."

The Eritrean government has welcomed offers of international assistance, but it is less keen on accepting the legions of highly-paid foreign consultants who roam around Africa.

A recent offer by the Italian government to rebuild the railway linking Massawa to the capital, Asmara, at a cost of \$85m (\$54m), was politely turned down.

President Isayas Afewerki told the Italians Eritrea would rebuild the railway on its own. The first new sleepers were laid last month.

There are few illusions, however, over the scale of the task which faces the new government.

Even after three years of peace, Eritrea cannot feed itself. It depends on international donations to meet the needs of 1.5m people - half of the population.

A further 500,000 Eritreans are awaiting repatriation from refugee camps in neighbouring Sudan - a country with which Eritrea severed diplomatic relations two weeks ago because of Khartoum's alleged training of Eritrean Islamic insurgents.

Nevertheless, foreign investors, led by the US and Israel, are showing an interest in Eritrea now that a foreign investment code and property and land rights have been established.

Several US oil companies, including Mobil, Amoco and Hunt, are negotiating oil exploration contracts for the shallow waters off Eritrea's Red Sea coast.

Israel hopes to start fishing operations soon after a 30-year break, while Middle East and German concerns are already negotiating for licences.

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صباح الخير

Bootleggers threaten pub landlords

By Roderick Oram,
Consumer Industries Editor

Criminal gangs that run pub protection rackets are reported to be muscling in on Britain's booming business in bootlegging cheap French beer by intimidating inner-city pub landlords.

Bootleggers have told some landlords in the cities of Sunderland and Newcastle upon Tyne in north-east England to co-operate in making it easier to distribute illegally imported beer, according to Mr Frank Nicholson, manag-

ing director of Vaux, the Sunderland-based brewer and pub owner. The government has refused to cut import duties on alcoholic drinks and tobacco to make imports from France less lucrative. And it has played down reports that organised crime has infiltrated beer bootlegging, although it recognises that the problem exists with tobacco imports.

The brewing industry estimates that some 3.5 per cent to 4 per cent of beer sold in Britain - or some 15 per cent of beer consumed at home - is imported from France.

Mr Nicholson says there is clear evidence that some bootlegging is being organised by the criminals who run pub protection rackets. "I am alarmed because it is a new element to an old vice, and the avenues to do it are very easy to exploit," he said. "It is a neat extension of their business."

Bootleggers have "suggested" actions to some Vaux licensees. The most popular include: selling smuggled beer in their bars; turning a blind eye to it being sold in their car parks; and opening their pubs later than usual to

ensure that more people are at home when the bootleggers take a sales trip around the neighbourhood.

"I have seen myself bootleggers selling beer from a van outside one of our Sunderland pubs," said Mr Nicholson. "The pub car park is a good meeting point."

Protection racketeers often threaten landlords with violence or damage to their property, although Mr Nicholson said he was not yet aware of any bootleg-related violence.

Typical consequences of failure to comply with protection

rackets are damage to property and starting fights in bars.

Rumours of intimidation by bootleggers had begun to circulate in the trade earlier this year, but Mr Nicholson is the first brewer to go on the record about the problems his landlords face in tough inner-city areas.

A London brewer told Mr Nicholson of a similar experience in Croydon, south London, when they met at the Brewers and Licensed Retailers Association earlier this week. He has also been told of intimidation in Manchester.

Conservatives' fundraisers look worldwide

By Jimmy Burns

One of the first big individual donors to the Conservative party to be publicly identified was Mr John Latsis, the Greek shipping billionaire, who is thought to have contributed £2m to the party when Baroness Thatcher was prime minister - he used to send her bunches of flowers.

"He was one of our biggest donors during the 1980s," a senior Tory confirmed. While unwilling to put a precise figure on the sums received, he recalled how Mr Latsis once wrote out two cheques for contributions of £200,000 each in less than two weeks.

Tory insiders also confirm that Li Ka Shing, the Hong Kong millionaire and a former business associate of Mr Mark Thatcher, Mrs Thatcher's son, was another significant foreign donor. He is thought to have contributed £500,000 after being approached by senior British business figures with interests in Hong Kong including the oil magnate Mr John "Algie" Cluff.

The Tory party's Hong Kong financial connection has continued with the involvement of Mr David Davies, the chairman of Johnson Matthey, the metals group, who is in charge of the party's overseas fundraising efforts.

Some donors to the Conservative party have become fugitives from British justice, increasing pressure in parliament for more transparency in political donations. Concern over donations to the Conservatives by Mr Asil Nadir, the former head of the collapsed Polly Peck empire who jumped bail, led to an inquiry by the House of Commons home affairs committee, which reported in April this year.

The Conservative party's fund-raising operation is headed by Lord Hambro, chairman of Hambro, the blue chip merchant bank, and Sir Philip Harris, chairman of discount carpet retailer Carpetright, writes William Lewis.

They were appointed party treasurer and deputy treasurer respectively in 1993. Insiders say they have developed a "sleazy and nice" fund-raising technique in their quest to overcome the party's £15m (£24.6m) overdraft.

"Hambro is the titular head - he sweet-talks the donors - and Harris comes in the next day to collect the cheques," one Tory party source said.

Sir Philip said the two tended not to work together in raising corporate donations. "We are a team, but Charlie and I do not go to the same people. I look after the retailers and industrialists and he looks after insurance and banking."

The Conservative majority on the committee saw no advantage in changing the rules on political cash contributions, although the opposition Labour party continues to call for a ban on overseas donations.

While UK-registered companies are required by law to declare substantial political donations, the role played by offshore companies and individual donors was known only to a small group of senior Tories.

In September 1991, the Conservative party was publicly challenged to disclose the extent of its dependence on "foreign funds" by four senior Labour party MPs including Mr Tony Blair, who is now Labour's leader.

Tax rule is overturned

By Barbara Ellis

A court ruling in London means that people who come to live in Britain will no longer be subject to tax on income from investments made offshore before they arrived in the UK.

Three judges in the Court of Appeal ruled in a little-noticed judgment last week that Section 799 of the UK's Income and Corporation Taxes Act, a wide-ranging anti-avoidance provision, is limited to those who are resident in the Britain at the time of investing offshore.

The UK's Inland Revenue

said it believed the potential loss of revenue resulting from the decision would be £18m (£29.5m).

The Revenue had pursued Professor Peter Willoughby for income tax on income rolling up within a Royal Life (Isle of Man) investment bond. Prof Willoughby, who taught law at the University of Hong Kong for some years until 1987, originally invested in the Isle of Man bond while resident in Hong Kong. But he was living in the UK again when the original bond matured, and he reinvested in 1989 and 1990 in similar bonds. Prof Wil-

loughby, who now lives in Alderney, one of the Channel Islands near the French coast, was supported in his court action by Royal Life.

Mr Chris Lindott of Baileys Shaw & Gillett, the law firm which acted for Prof Willoughby, said the decision was a landmark because it overturned previous practice and interpretations of legislation virtually unchanged since 1988.

The Revenue said after the case that it might still appeal to the House of Lords, the unelected upper house of parliament which acts as the UK's final court of appeal.

UK NEWS DIGEST

MP rebukes newspapers over lottery

Mr Jack Straw, the opposition Labour party's shadow home secretary, is to protest to the Press Complaints Commission because two newspapers yesterday named the man who won a record prize of almost £18m (£29.5m) in the UK's national lottery last week.

Winners are allowed under lottery laws to choose to remain anonymous, and some newspapers at first offered rewards to readers who led them to the £18m winner, who emphasised that he wanted anonymity. The winner was identified in some newspapers last week as an Asian father of three who lives in Mr Straw's constituency. He was named for the first time yesterday in Yorkshire on Sunday and in the News of the World, the top-selling newspaper in the UK.

Mr Straw urged the commission to issue "clear guidance on privacy", saying: "If they fail to do so, it will simply hasten the day there are very stringent privacy laws." He said he had already complained to the commission about the way the press had hounded the winner's family. But the behaviour of the two Sunday newspapers was "in a different league of irresponsibility".

Insurers attack fraud

Insurance companies have cut fraudulent claims by about 25 per cent in the past two years, says an Association of British Insurers survey released yesterday. However, fraud-

lent claims - estimated to have totalled \$600m (\$934m) this year - still add on average about 4 per cent to the cost of insurance, the association calculates. Mr Mark Boleat, director-general, said insurance companies' efforts at preventing fraud were "now beginning to pay off, with signs of a fall in the number and cost of fraudulent claims."

Job prospects improve

Next year will open with the best first-quarter employment prospects since 1990, says a survey by Manpower, the employment services company. Although manufacturers have replaced services as the most optimistic sector of the economy, employers in the energy and water industries are much more pessimistic.

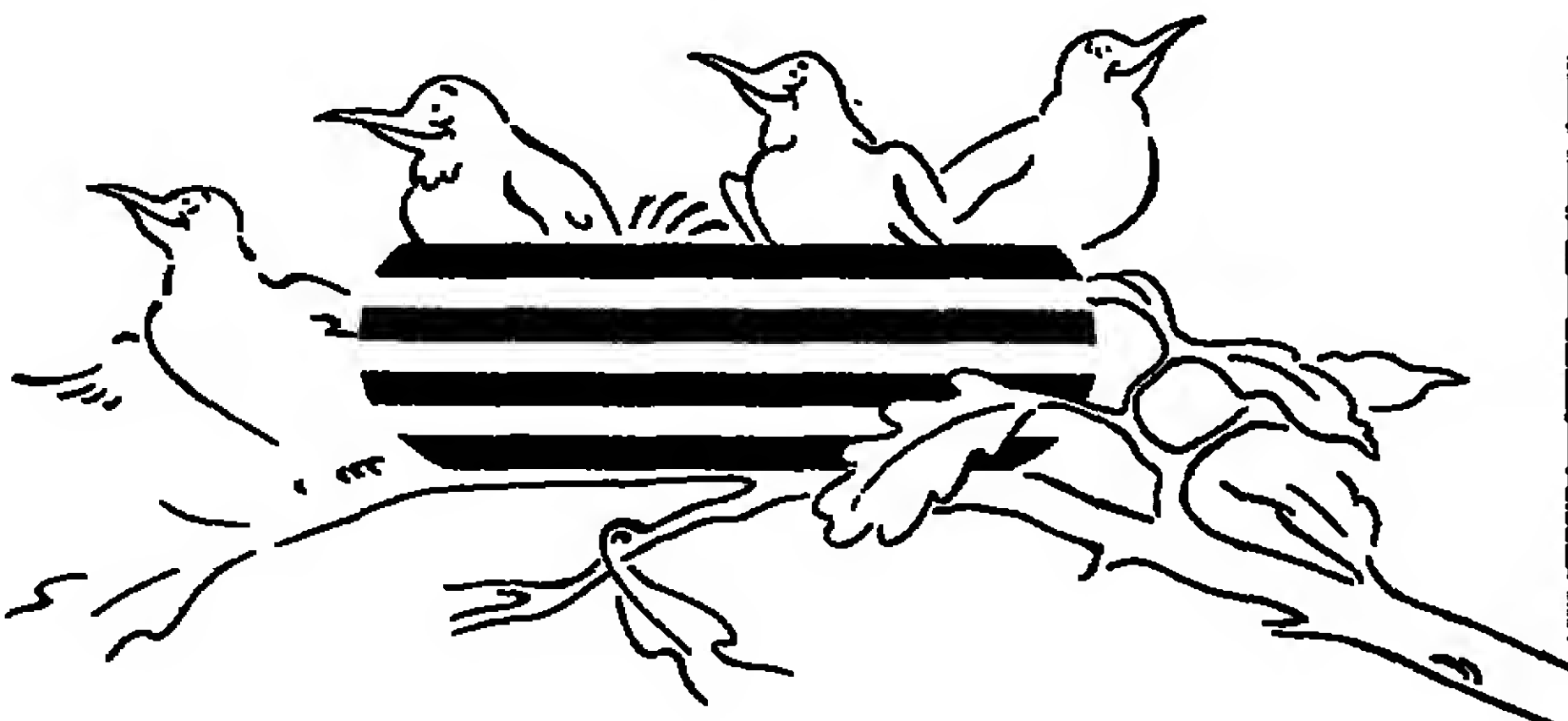
The survey - based on responses from more than 2,000 employers - shows that 18 per cent are forecasting job increases and 16 per cent losses.

Workplace worries rise

Half of all employees feel their jobs are less secure than they were last Christmas, says a survey of workplace opinion by the white-collar union MSF. It says job security is the main concern in the workplace. The survey also shows that nearly half of respondents think they are treated badly by their employer and that stress at work is increasing.

Passengers may sue

Cumard, the shipping line owned by Trafalgar House, the engineering and property conglomerate, may be sued by angry holidaymakers denied a Christmas cruise on the QE2. Compensation claims against the line could amount to \$2.6m. Some 300 passengers were turned away hours before the liner set sail for New York on Saturday night because of unfinished plumbing in about 100 of the ship's 550 cabins.



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MANAGEMENT

A testing time in the job market

Motoko Rich and Richard Donkin examine the controversies provoked by psychometric assessment

How do you think you would react if you had to view corpses and accompany them to the airport? Visit prisons? Live in areas where disease is an everyday problem?

Such questions may seem bizarre but they are routine for applicants to the UK's Foreign and Commonwealth Office.

Before filling an application, would-be diplomats complete a "self-assessment questionnaire" which is meant to test their suitability for the sort of professional and social life they can expect while working for the foreign office. Candidates score themselves, and if they reach a designated threshold, they are invited to proceed with the application. If not, they are told to consider another career.

Customised psychometric tests of this kind are not just used to identify the flexible types required to defend and advance British interests. Their popularity is rising in the UK and some estimates suggest the majority of larger companies have used the tests to assess personalities and abilities for recruitment, career development, team-building and, in some cases, redundancy selection.

The tests are not without controversy. Several cases recently have highlighted the varying quality of test providers and the dangers which can arise if they are sold for the wrong purpose or fall into the wrong hands. These have led to calls from occupational psychologists, personnel managers and, most recently, trade unions for better administrative standards.

Testing is not new. Intelligence and personality tests were first used on a large scale by the US army to determine who could handle the stress of trench warfare in the first world war. In the 1950s and 1960s, interest in the UK was fuelled by the growth of graduate trainee schemes in large corporations, when employers used the tests on inexperienced candidates.

Experts say it is important to distinguish between ability tests, which measure numerical and verbal skill, and personality tests, which measure people's perceptions of their own behaviour.

If properly used and designed to evaluate skills relevant to the job being filled, many psychologists agree that ability tests can be highly effective. The use of personality tests, however, is more controversial.

Unison, the public service union, has raised questions about the use of personality tests when Anglian Water decided it needed to shed 900 staff as part of a big reorganisation. All staff were given a personality test to help managers decide who would be given new jobs.

According to Unison, the company said the tests would only influence 30 per cent of the decision. But Unison says the tests must have had more weight in the process. The union also claims the company determined the competences the test would identify before it had determined what characteristics or skills were needed for the jobs.

In the US, a court in California awarded \$1.3m (£800,000) damages against a supermarket chain which had used a personality test to recruit security guards. One of the recruits complained that the questions were intrusive and bore no relation to the job he was being required to do.

Similar complaints have been voiced by UK employees who lost their jobs at Southwark Council in London after personality tests were used to decide who was made redundant in a job-shedding exercise earlier this year. Unison is taking up the Southwark incident in an unfair dismissal case before an industrial tribunal.

It may take one of these cases to remove the veil of statistical and psychological jargon that characterises academic debate and salesmanship in psychometrics. The excessive use of jargon is one reason why psychometric tests are so open to abuse. Management neglect is another issue. Because tests are used mainly as a recruitment tool, senior executives have often been content to leave their adoption and use to personnel specialists who, some critics believe, have been too ready to embrace psychometrics as another "boy scout badge" in the field of human resources.

"There is a lot of black magic around psychometric tests," says Steven Blinkhorn, co-director of Psychometric Research & Development, a consultancy which develops custom-built tests. "It gives personnel managers a sort of cachet because it gives them something they can do that others in the organisation cannot."

That said, many psychologists and personnel managers argue that psychometric tests can add value to a company's selection or career development processes and that they are better guides to a candidate's potential than the interview, references, letters of application and other traditional selection methods.

"The same kind of critical criteria that are applied to tests are not applied to the interview as a selection method," says Clive Fletcher of Goldsmith College, London University. "The interview does not predict future performance at all and it is a marvelous vehicle for bias."

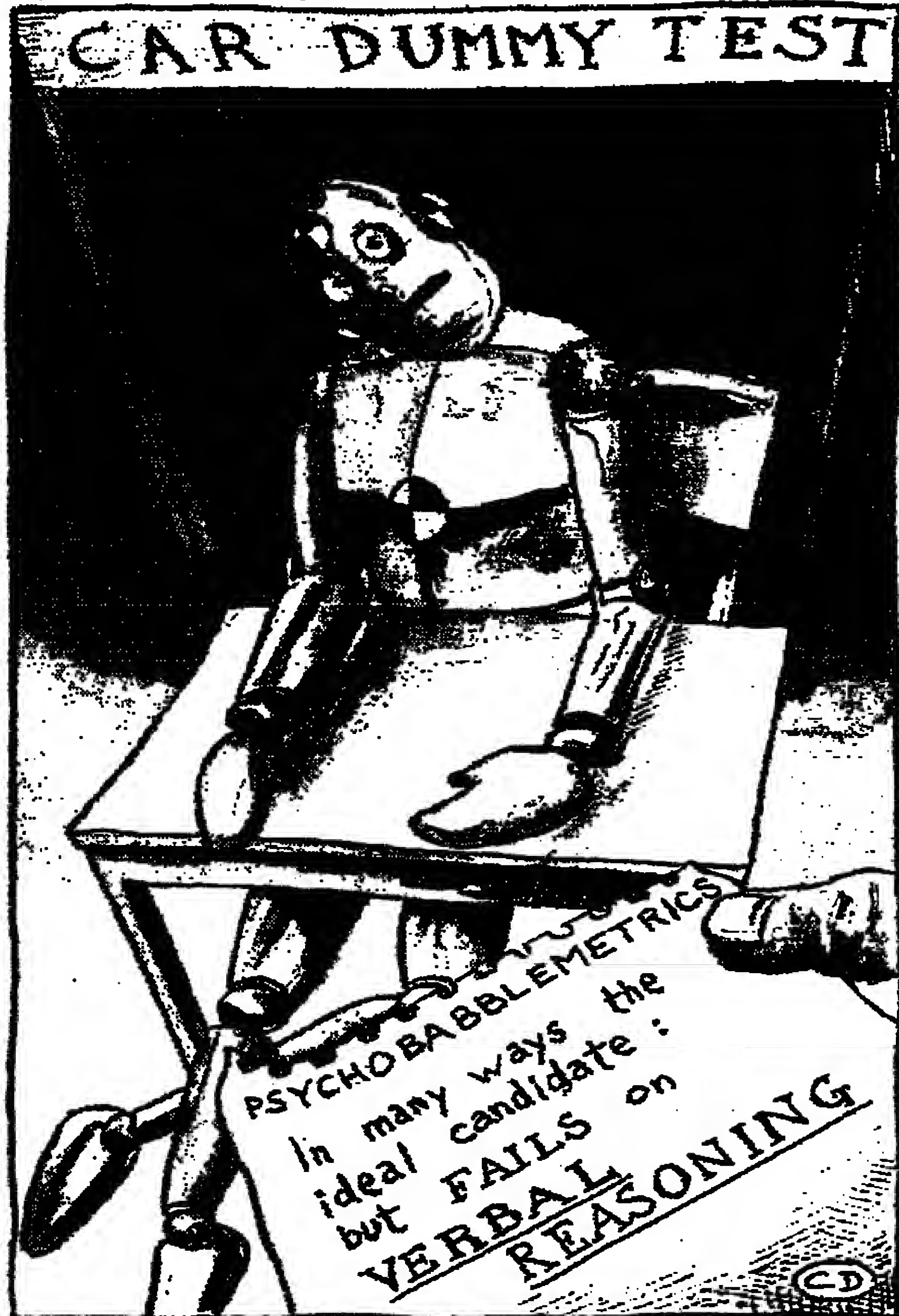
Blinkhorn and his consultancy partner Charles Johnson have written that such tests can often "bamboozle an unsophisticated public with pseudo science" and that tests "play fast and loose with statistical methods, and... make claims that do not stand up to close inspection."

Steve Sefton, manager of ASE, the business psychology division of test publisher NFER-Nelson, is not as critical but concedes the tests have their limitations. "Tests are really designed to be predictive of people's behaviour, rather than their job performance," he explains.

Along with the other leading test publishers, however, he insists that personality tests can be helpful tools in selection if used and understood correctly in conjunction with other recruitment methods.

Many psychologists, however, believe no test should be used in isolation or for redundancy purposes. "Tests should be used as a part of a battery of selection techniques such as interviews, group discussions and application forms," says David Bartram of Hull University, and a member of the test standards committee at the British Psychological Society.

Saville and Holdsworth, the UK's largest test publisher, with a turnover of £30m worldwide, publishes hundreds of tests, including the Occupational Personality Questionnaire, which is one of the most



respected on the market. Other reputable tests include the 16PF, published in the UK by ASE, and the Myers Briggs, which was developed by two Americans in the 1950s. There are more than 5,000 tests in the English language on the market, some of which, says the BPS, are of dubious validity. The Institute of Personnel and Development has developed a code of conduct for its members and the six leading test publishers have issued guidelines for test publishers and users. But none of these bodies has regulatory clout; nor can they vouch for the effectiveness of test methods.

In an attempt to introduce some standards into the field, the BPS has devised certificates of competence for those administering ability tests; equivalent qualifications for personality tests are expected sometime next year.

To obtain a certificate, company personnel officers have to enrol in BPS training courses run by chartered psychologists. The courses train non-psychologists to distinguish between types of tests, analyse statistical data, identify the abilities or characteristics that need to be tested, and judge if a test is valid for a company's needs.

Leading publishers are also attempting to police their own tests and improve training - though their motives may not be entirely altruistic. Users of Saville and Holdsworth's tests, for example, must attend week-long courses before being allowed to purchase any of the materials. Such training is expensive: users can expect to pay more than £4,000 for a course. The requirement to attend in-house training before tests can be bought, though, means the publishers may be "milking the market", according to Pauline Grant, business director of IARCAshridge, a consultancy.

The respectable publishers, however, are not the main problem. Price often influences choice and cheap, quick-fix tests that claim to be easy to operate are often run on computers and probably have as much to do with objectivity as the "Are you the world's best lover?" quizzes in teenage magazines which have proved highly popular.

Research dating back to 1958 shows that poor tests are about as good as star-sign columns in Sunday magazines. A psychologist tested 68 personnel managers and later gave them each identical reports describing their personality. In what is known as the Barnum effect, half of them described the report as "amazingly accurate", and 40 per cent of them said it was "rather good", while the other 10 per cent thought it was "half and half".

Before any test is adopted, employers should conduct a thorough job analysis. "The first thing you need to do is identify the task demands of the job," says Blinkhorn. "Ask if people need to bring those skills ready-made or if some of these skills are in part learned on the job."

Recruiters needed to talk to people already doing the job, as well as supervisors and management. Once the skills and characteristics genuinely needed for the job are identified, then an employer is better placed to choose the best test to evaluate them.

Perhaps the most important thing for potential test-users to remember, however, is that the tests have their limitations. When assessing personality, Grant says "people with very different personality characteristics could both do the same job very well".

Bartram also says employers need to decide whether they want to measure personality at all before they decide which test to use. All too often, he says, the debate is focused on the quality of the test rather than the question of whether personality is relevant to the job at all.

If a company does decide to use psychometric instruments, he says there is no justification for choosing inappropriate tests, just to save a few pounds. "In the long run, companies who use unreliable, cheap tests are going to lose out by doing that. They will be picking people who are not the best for the job."

What's the score on choice?

Selecting a test involves more than flipping through a vast catalogue and picking one that sounds good. Conscientious employers should consider a number of factors before choosing a test.

David Bartram of Hull University, and a member of the British Psychological Society's test standards committee, encourages employers to examine any

potential test for:

- Scope - what areas of ability or personality are you trying to cover?
- Accuracy or reliability - will the same test yield similar results if the same individual sits in two weeks' time?
- Validity - does the test measure what it says it does?

For example, if a test yields a score on a

person's persuasiveness, will the person who scores high on that scale actually be more persuasive than others who score low on the scale?

A good test should always include statistical data to back up its claims of validity, and the BPS competency courses should train users to be able to read these statistics.

● Fairness - is there any evidence to show that the test is unfairly biased against certain groups, such as women or ethnic minorities?

● Acceptability - how well will the test you are planning to use fit into the organisation and its image?

● Practicality - assess the time, resources and cost factors involved with the test.

The annual agony of Christmas giving

It is now the Christmas party season: a time for lechery and indulgence. It is also a time of gift exchange, personal and corporate, which like so many things at Christmas is fraught with difficulty.

Gift buying is an annual torment which means so much to the chancellor of the exchequer, the high street shops and the credit card companies. But what makes this business of gift exchange and present-buying so difficult?

Maybe it is because they are imbued with much meaning - they can be statements of influence, power, taste, sympathy or emotion.

It is not only the problem of to whom one gives presents or not, and/or how much/little to spend, but more importantly what sort of item to purchase. Gifts are one of the ways in which the mental pictures others have of us are transmitted and likewise, we disclose to our gift recipients our pictures of them.

The subtlety of the exchange can

be best seen when it goes wrong. We can all remember, as a child, receiving a present which was insulting because we had outgrown it.

On the other hand, over-eager parents may cause extreme anxiety by giving gifts for which the child is simply not ready. Most toy manufacturers recognise this problem and indicate the toy's appropriate age range. Wouldn't it be fun to do the same for adult presents, putting labels on afterwards like "ideal for Essex man"; or executive toys "for the middle manager going nowhere"?

It is precisely because we give people something "suitable", as we perceive it, that individuals are so frequently given the same sort of present. How many executives receive bottles of whisky?

Should a person receive a variety of unusual presents, one may wonder at the gift-givers' very different perceptions and the real identity of the recipient.

The Christmas present also

ADRIAN FURNHAM



imposes an identity on the giver, as well as the receiver. Some men confirm their "macho" identity by presenting non-personal gifts, such as cigars following the birth of a child.

There is the conspicuous presentation of expensive gifts to celebrate simultaneously one's wealth and generosity. A gift may also be a portion of oneself - a sort of example of one's talent - so the artistic give pictures, gardeners a plant.

Gifts can be an important source of dominance particularly if one cannot reciprocate. Occasionally, adults can embarrass each other by the generosity of the present. To accept a gift is, to an extent, to

accept the identity it imposes.

However, gifts can be rejected if they are perceived as unfriendly acts. A giver may express contempt by purchasing a gift for an individual which is inferior to those openly given to others. Gifts may have symbolic qualities - a gold watch for good riddance, travel luggage encouraging a long journey.

"Hint-type" presents may also be rejected - cosmetics to conceal poor skin, a watch for the habitually late. Many "joke" presents fall into this category, for example, hot, spicy chewing gum (for the loud mouthed). Joke gifts may also reflect a rather insecure relation-

ship. Just as easily, gifts can be an expression of guilt, such as an attempt to compensate for a certain deficit. They make excellent items to use in the statement of sins but they can be easily rejected as not being sufficiently compensatory.

Exchanging presents is another, more acceptable form of rejection. There are so many people returning unwanted gifts to the stores after Christmas (clearly not always because the size is wrong) that one wonders if anybody received a present which they wanted.

Some groups try to prevent gift inflation, such as setting a limit on a present's cost.

Another way of coping can be to set aside certain goods or services as specifically gift-related and somehow not part of the mundane economic world. Confectionery and gift tokens play an important role here.

But, however hard people try, the social rankings so beloved by the British are reflected in, and maintained by, Christmas gifts, for the allocation of the quality and quan-

tiy of presents brings people into comparison who are rarely contrasted with one another. "What did you get for Christmas?" provides excellent data on exactly where someone stands in the pecking order.

Both buying and receiving presents is a maze, full of rules and conventions and sub-texts and messages about multiple facets of the giver and receiver alike. Even a statement of one's ideal gift can be a minefield, as the British ambassador to Washington discovered.

The diplomatic envoys from several countries were canvassed by a local radio station; the French ambassador described his ideal Christmas present as peace throughout the world, the Canadian ambassador wished for an end to starvation, while the British ambassador requested a nice box of crystallised fruit.

The author is head of the business psychology unit at University College London.

Unfortunately history has repeatedly proved that a combination of being armed to the teeth and devising is more likely to allow you to achieve your objectives. It is all very well being good, says Machiavelli, but the leader should know how to enter into evil when necessity commands.

According to psychologist Robert Starnock of consultants TSC "Like the leaders Machiavelli sought to defend, some executives tend to see themselves as the natural rulers in whose hands organisations can be entrusted. Theories abound on their motivation. Is it a defensive reaction against failure or a need for predictability through control? The effect of the power-driven Machiavellian manager is usually plain to see."

In companies addicted to internal politics, Machiavelli remains the stuff of day-to-day reality. But, warns Starnock, Machiavellian management may have had its day. "The gentle art of persuasion is finding favour with managers. The gentle art no longer justifies the name. There is a return to the age of reason against which Machiavelli rebelled."

For many this age of reason has yet to dawn. Managers may not have read *The Prince* but will be able to identify with Machiavelli's observation that "a prince ought to have no other aim or thought, nor select anything else for his study, than war and its rules and discipline." In the corporate trenches, Machiavelli remains useful Christmas reading.

Stuart Cramer

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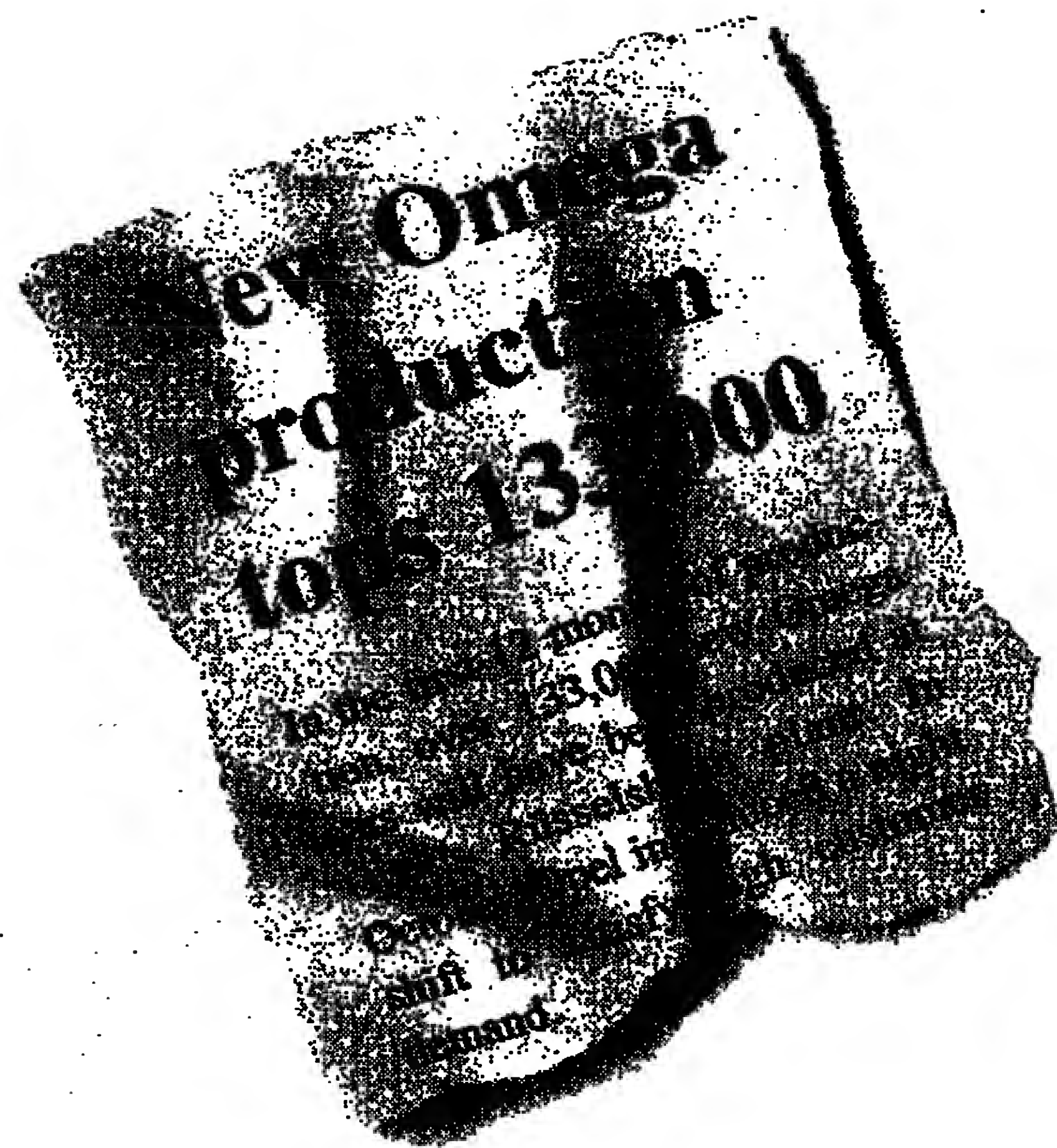
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"Omega's dynamic qualities make it the leader of its class"
Coche Actual (Spain)

"In handling, safety and comfort, the new Omega V6 is out in front"
Auto Zeitung (Germany)

"The finest car in its class by a comfortable, if not heroic margin"
Autocar (UK)

The public often rejects that which the experts admire. And vice versa.

The new Opel Omega, however, has clearly avoided such a fate.

It was launched in March this year to rapturous reviews from the motoring press. Among the praise which accompanied that above were quotes such as "The Omega holds three trumps: performance, fuel consumption and level of equipment" from Action Auto Moto in France and "A jump ahead" from Corriere della Sera in Italy.

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appreciation. Sales of the Omega throughout Europe surpassed even our expectations and we've had to add a night shift at our Rüsselsheim plant in Germany to meet demand.

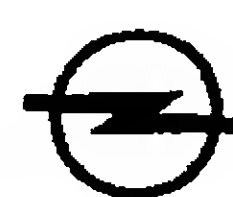
You won't be surprised, therefore, to learn that the Omega has already won some major motoring awards, among them the prestigious "Goldenes Lenkrad" award for best new model in its market segment, given by Germany's Bild am Sonntag and the RJC award for "Import Car of the Year" in Japan.

The Omega is just the latest in a long line of Opel success stories which have

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OPEL 

BUSINESS NEWS
te on the biotechnology

PEOPLE

The catalyst for new year resolutions at Hoechst

Jürgen Dormann is bringing about radical changes at the world's biggest chemicals group, say Christopher Parkes and Daniel Green

According to German corporate tradition, Jürgen Dormann had one crucial qualification for his elevation last May to chairmanship of Hoechst: more than 30 years' unbroken, faithful service. By another traditional measure, he is not qualified at all: he is not a chemist. But the 54-year-old former finance director - the first non-technical man to run the show - shows no signs of suffering any deficiencies as a result.

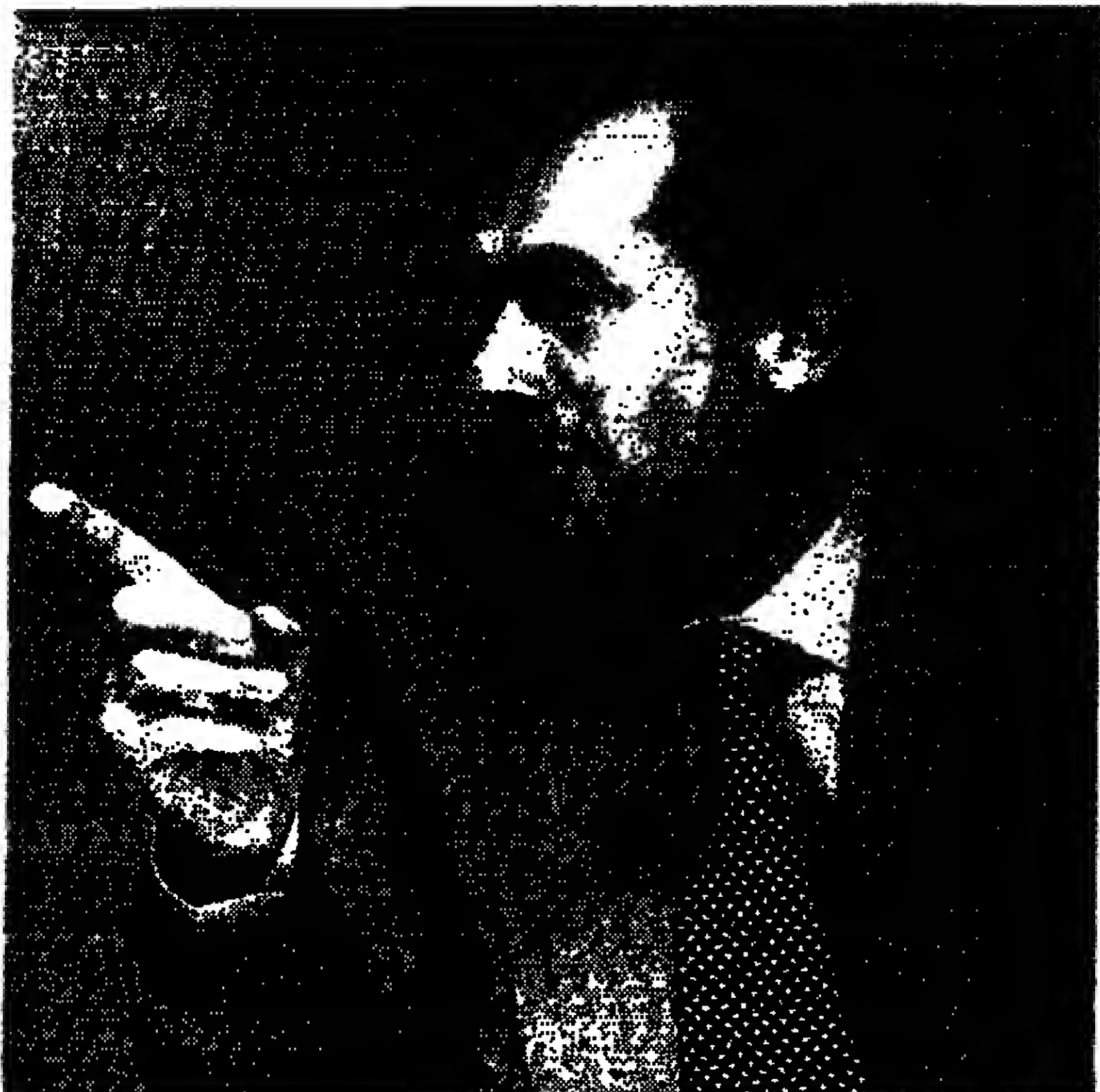
Dormann himself suggests that it is partly because he has been around so long that the most radical shake-out yet seen in Germany's much-restructured chemicals sector has so far been the success it has. Hoechst's staff do not see him as an "occupying force", he says, and he is thus accorded more accolades than resistance.

His colleagues, meanwhile, laud him for not succumbing to the paralysing conservatism and aversion to risk which routinely characterise many long-serving German managers. "Paranoia is a thing of the past," says one. So, too, is the old hierarchical muddle which used to typify the structure of the world's biggest chemicals group and fourth biggest pharmaceuticals company. On January 1, everything will be turned inside out - officially.

The number of operating divisions will be cut from 15 to seven. Clearly separate stand-alone operations will be run as such. Responsibility, exercised centrally for decades, will be distributed. Rewards will be commensurate with performance. The management board will give up a seat to its first foreigner, an American. Questions from the public and press will be answered. And concerns from the population about the chemicals and drugs industries - particularly in Germany - will be addressed in an accessible fashion.

Dormann, a skinny, nervous-looking Hessian, has earned much popular credit for instituting all this change. But the reality appears to be that he is what is known in other business cultures as an enabler. His assumption of power in the wake of the unimpeached Wolfgang Hilger, a dour man with little appreciation of the merits of communication, has simply released reserves of talent which had been bottled up.

Dormann scoffs at any suggestion that outside business consultants have had a hand in his scheme. All the



changes and new ideas came from an eight-man team of senior managers called together four weeks before he took control and set seriously to work on the day he moved offices in May. Their proposals were ready by the end of September and approved by the board in early October.

All were promoted, and several put in charge of the projects they proposed - a tactic which seems to appeal to Dormann's sense of humour. "They have to live up to their ideas... I told them at the beginning I was not asking them to come in, prepare an analysis and then go off again like other consultants."

Further down the line, he admits, "it's hard to convince people that they have to get more business and market-oriented, that they have a bottom-line responsibility, and that they will be paid based on the goals we agree on."

But he insists there has been little resistance to change. Indeed, the works and middle management appear to be

suffused with a sense of relief - if not excitement - that the old order has been swept away so comprehensively. "Even though there are a lot of familiar faces still in the top management, there is a feeling that they have seriously changed their way of looking at and doing things," says one senior manager.

Part of the relief stems from a conviction that it is now inconceivable that the management is capable of repeating the blunders accompanying last year's series of accidents at the group's main site near Frankfurt, when Hoechst's response - dismissiveness, followed by panic - showed it as disorganised, defensive and arrogant.

Dormann is none of these. An industrialist with political skills, he can be engagingly informal but visibly weighs his words before speaking. "We are not hiding any longer," he says. "The main message is that we want to manage our activities based on long-term goals and vision."

Much of the propaganda drive is addressed to German environmental concerns, he acknowledges. It is one of the few areas in which he is prepared to say that domestic issues play a strong part in strategic thinking. Perhaps this is not surprising, given that the company has built its last large-scale chemicals plant in Germany. There is more than enough capacity; the issue is one of managing a reduction in size.

Dormann is not afraid to move capacity and even headquarters functions out of the country. The fibres division, one of four core business areas he has identified, is now being run from the US with an American in charge. "It's not a question of passports or nationalities; it's a question of competence, markets, technology and creativity," he says.

For example, the logical sites for manufacturing chemicals for use in the electronics industry are in Japan rather than Germany, he says.

Top priority is now overseas growth: in north America, eastern Europe - above all, in Asia. Just returned from a visit to China, Dormann knew "that 1.2bn people live there. But seeing it makes the difference. My God, what a lot of tasks we face. We are negotiating four or five joint ventures in the industrial gas business. We might be a little late, but China is such a huge market."

In the US, he would like to add maybe two or three mid-sized pharmaceuticals acquisitions to the existing north American drug operations - recently bolstered by a minority stake in Copley Pharmaceutical, which specialises in generic products. Since Hoechst took the stake, Copley has been hit by a series of problems including the recall of faulty products.

Perhaps surprisingly, Dormann admits that he is not altogether clear what has happened. But then it may be the sort of admission which an "enabling" executive chairman must be prepared to make, especially in the early stages, if he is properly committed to delegation. "It's our job here to see the links [between our companies]. We try to involve our divisional people in strategy discussion but not in the details of cost-cutting," he says. The new corporate formation will, he hopes, act as an early warning system.

But the changes go far deeper than structure, he says. "We have changed the mood."

NAMES IN THE NEWS

Questrom's US shopping trip completed

It looks as though Allen Questrom, chairman and chief executive of Federated Department Stores, has finally done it, writes Richard Tuckman. Today, barring last-minute obstacles, the US department store chain will complete its takeover of the rival R.H. Macy retailing group, and Questrom will become the department store king of the US.

His empire will embrace 347 department stores trading under some of the best known names in US retailing. Federated's 11 chains will include Bloomingdale's, Macy's, A&S, Bon Marché and Brinkley's. Questrom will be chairman and chief executive of a group with annual revenues of \$13.5bn.

For Questrom, 54, it will be the crowning moment of his career. A native of Massachusetts, he joined Federated as a trainee at A&S after graduating from Boston University, and quickly rose to the position of merchandise manager.

By January 1988, he had become vice chairman of Federated itself - but four months later he stormed out to join the Neiman-Marcus department store group when Federated was taken over by Canadian financier Robert Campeau.

As it turned out, his absence was only temporary. When Campeau drove Federated into bankruptcy in 1990, Questrom was wooed back to pull the company out of its troubles. Then, just as he had turned Federated around, R.H. Macy found itself going into bankruptcy, and Questrom started making overtures.

Federated eventually won control of R.H. Macy by buying some of its debt from another

creditor, so securing a powerful say in the company's future. Now Questrom faces the formidable task of showing that he can make the merger work. Many a successful executive has come unstuck on less, but most US retailers would say that if anyone can do it, Questrom can.

Dream time for Montgomery

When Michael Montgomery ended his eight-year career with Walt Disney by resigning as finance director of Euro Disney, its troubled French subsidiary, the last thing on his mind was to take another job in entertainment, writes Alice Rawsthorn.

Now, four months later, he is back in the same business after joining forces with the "dream team" - Jeffrey Katzenberg, former head of Disney's movie studios, Steven Spielberg, director of *Jurassic Park* and *Schindler's List*, and David Geffen, the billionaire music mogul - in their attempt to launch a new entertainment group.

"It was not what I expected to do," says Montgomery, 40, whose top priority in his new job will be to raise capital. "But this was an opportunity I couldn't resist. It's one of the most exciting new ventures that anyone could dream of."

Katzenberg was the architect of his appointment. The two had worked together on film-financing projects at Disney where Montgomery was assistant treasurer from 1986 to 1991 and then treasurer until he moved to Euro Disney in 1993.

He will be working closely with Katzenberg and with Ronald Nelson, former finance director of the Paramount entertainment group. Yet Montgomery insists that there will be no conflict of interest between his role and Nelson's. "There is so much work to do here - plenty for everyone. Besides, I can't think of a nicer guy to work with."

After four months of self-indulgence - "doing all the things I haven't had time for in 15 years, like taking my son to school and improving my golf" - he is now preparing for a more rigorous regime at the temporary offices in Los Angeles.

Rigorous it may be, but raising capital for the star-studded team and Geffen sounds much more enjoyable

than struggling to salvage Euro Disney. "It'll be hard work," he says. "But I can't think of any job which will be more fun."

Musical chairs - Swiss style

In Japan, the transfer of ageing bureaucrats to the private sector is so common that there is a term for it, *amakawakari*, descent from heaven, writes Ian Riddler. In Switzerland, it is less frequent, but it is becoming fashionable among diplomats, for whom there is less call than in cold war days when the services of a trustworthy neutral country were in great demand.

Last week, Erwin Schürzenberger, 55, the current ambassador to China, jumped to Ciba-Geigy as head of the pharmaceuticals and chemicals group's year-old Chinese subsidiary. Schürzenberger follows the example set by David de Pury, the country's former official responsible for world trade matters, who moved to ABB Asset Brown Boveri in 1991; he is now co-chairman.

Bernhard Stettler, former counsellor at the Swiss mission to the Council of Europe in Strasbourg, has become spokesman for Swiss Bank Corporation, and Philippe Lévy, a former trade official with ambassador status, who ran the Basle International Fair for a few years until last December, has now become an adviser to the Geneva-based international inspection and product testing group, Société Générale de Surveillance.

Switzerland has no tradition of a reverse movement so expellees have been raised over the nomination of Ueli Sig, 46, a former executive and member of one of the controlling families of the Schindler elevators group, as Schürzenberger's successor in Peking.

But at least Sig has distinguished qualifications for the job. In 1989, on behalf of Switzerland, he negotiated the first ever joint venture in China for a western company.

Old diplomatic hands are less attracted by the opportunities of *amakawakari* than the Swiss. In 1989, on behalf of Switzerland, he negotiated the first ever joint venture in China for a western company. Old diplomatic hands are less attracted by the opportunities of *amakawakari* than the Swiss. In 1989, on behalf of Switzerland, he negotiated the first ever joint venture in China for a western company.

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INTERCONNECTION - THE EVOLVING UK PROGRAMME AND ITS INTERNATIONAL CONTENT

The London Hilton Hotel on Park Lane - 8 February 1995

The Financial Times and OFTEL have joined forces to arrange a conference on interconnection, focusing on the critical nuts and bolts of the competitive telecommunications regime as it goes into its second decade.

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INTERCONNECTION
London, 8 February 1995

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New-age Britannica gets foot in the door

Martin Mulligan explains how the encyclopaedia company is meeting the challenge of new technologies

He is etched in urban legend: the smiling yet implacable doorstep salesman of encyclopaedias. You might think him a member of a threatened profession, trading on borrowed time in an increasingly high-tech, information-rich world. But you would be mistaken. If the leaders in the field are to be trusted, the future of the doorstep encyclopaedia salesman is assured. In fact, his prospects have never seemed more alluring.

Which is strange. After all, aren't books themselves said to be living on borrowed time, perhaps already superseded by CD-Rom, interactive and multimedia products?

Joseph J. Esposito, north American president of Encyclopaedia Britannica, sees things differently. At ease in his book-lined office, a short walk beyond the stone lions that guard Chicago's Art Institute, Esposito describes himself as "an English professor manque". He combines a keen sense of mission with an eye for what is really happening in the global information market.

A self-confessed bookaholic, Esposito quotes T S Eliot and Voltaire in the same breath as he outlines the cyclical pattern of sales since Encyclopaedia Britannica, now in its 15th edition, was founded by three Scots in Edinburgh in 1768.

His mission is that of self-appointed protector of particular values. "As long as the Enlightenment spirit exists in the world, there will be a Britannica," he declares. Staffy he is not. Today's Britannica comes in four "flavours". There is the printed version we all know and love, Britannica CD-Rom, and, most recently, Britannica Online, in a local area network version and a World Wide Web version. The latter two are available at present only to universities and colleges (the first UK institutions have bought licences very recently).

Britannica is making big efforts to enable libraries, schools, companies and home users to gain access to its World Wide Web version. It does not know how quickly that is likely to happen, but even within Chicago's bastion of enlightenment, the Internet is seen as holding the most excit-

ing possibilities. Today's flood of information, Esposito argues, has made Britannica, in all its forms, more valuable than ever. An environment in which the questions have multiplied is tremendous news for a man in the business of giving answers.

But the issues run much deeper. More than ever before, knowledge is endangered by wave upon wave of information. A knowledgeable person is now one who understands just how much of this information can be ignored.

What that person needs is a versatile, navigable, intellectual ark to carry the inquiring mind from place to place on the back of the flood. And the various versions of Britannica are just such arks.

As Esposito has said: "What is essential for the future of knowledge is filters and classifiers, information tools that cut out the noise and give us pieces of the universe in knowable units."

All well and good. But how does that square with the 32-volume, hand-tooled, leather-bound monolith on the bookshelf - that alternative universe of print and colour plates in which an imaginative child could lose itself for hours. Has that special experience gone for ever, replaced by today's and subsequent generations by CD-Rom or on-line versions of Britannica?

Perhaps not. Globally there is little hard evidence that sales of electronic products are at the expense of book sales. There may even be a small positive impact on book sales. Britannica's experience to date tends to support this. Its traditional printed version still comes in seven different bindings - to match room decorations.

"Most people buy the CD-Rom and print versions together, making up fully 40 per cent of our sales. Virtually no-one is buying CD-Rom without the print version," says Esposito.

It may be, after all, that print and electronic media do not have to fight each other. Against all expectations, they may be able to enjoy a symbiotic relationship.

CD-Rom is an "interim technology", according to Esposito and his colleagues. But nobody can say how long the interim will last. The single-disc Britannica CD contains a dictionary, a thesaurus, and the 65,000

articles and 44m words of the traditional Britannica. But they are the right words, as distinct from mere information.

Britannica CD is described as fully interactive but not multimedia. It is claimed to be the most interactive encyclopaedia going, because it has the "best search engine on the market".

A typical encyclopaedia contains 7m to 10m words. At 44m, Britannica is thus the big boy on the block. Its competitors in print include Collier, Grolier and World Books, but it says that its market share in print in the last few years has grown. Esposito admits that only 10 per cent of the print version's illustrations have been translated into the CD-Rom format.

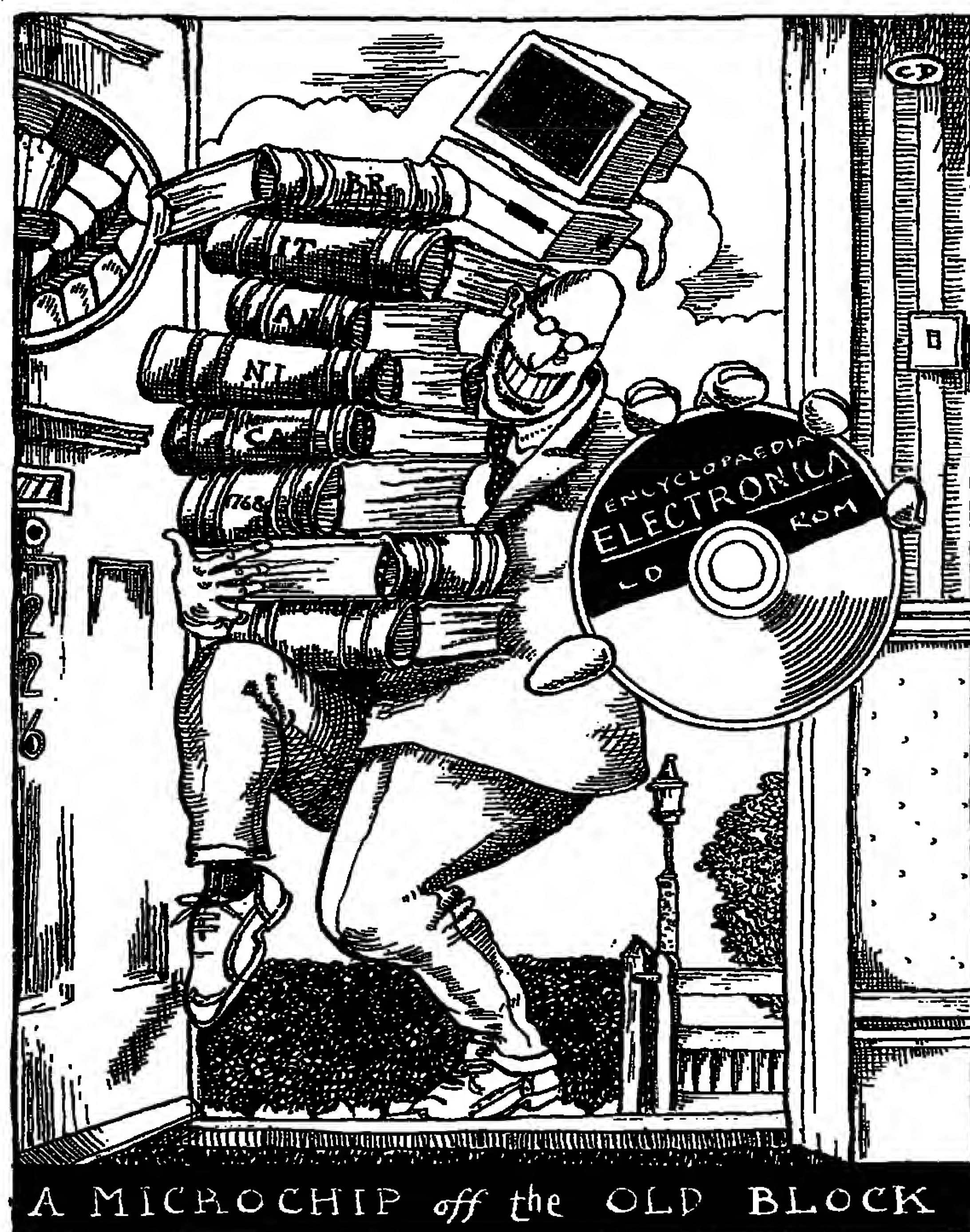
Its strategy has been to invest in continually updating its database and developing powerful search-and-retrieval functions, rather than adding the random snippets of sound and video that characterise most CD-Rom encyclopaedias. Esposito admits that only 10 per cent of the print version's illustrations have been translated into the CD-Rom format.

Could it be that Britannica's interest in CD-Rom is fuelled by the growing suspicion that many of its prospective younger readers are losing themselves in the branching networks of, say, Compton's Interactive Encyclopedia, a screen-based "reading experience" which is perhaps as memorable and exciting for today's school-age children as their parents' first encounter with the traditional Britannica?

Esposito praises the competition, then quietly observes that "it is probably unfortunate that Britannica and its competitors share the name of encyclopaedia."

It is a harsh fact of life that quality publishers tend to lose money. Is Britannica defying that trend? Esposito does not evade the question, but his reply is carefully constructed. Britannica is owned by the William Benton Foundation, a non-profit corporation in Illinois, founded by the former senator which supports the University of Chicago.

"Historically," says Esposito, "we are in a very cyclical business, and



this has been true of [our] US sales for the entire century. We felt the 1991 recession. In terms of total company revenue, lately international has been greater than domestic. But the economy has begun to turn, and there is a great sense of optimism." He is aware that "complacency kills companies, and the future does not necessarily belong to us", but takes heart from the fact that "the more affluent consumer market is showing a preference for our product."

But what of Britannica Online, the

jewel in the crown if the word of information scientists is to be accepted? How does it differ from the printed Britannica? Esposito reckons that "a truly electronic encyclopaedia will no more resemble a print encyclopaedia than a horseless carriage resembles a horse."

Britannica Online certainly offers a hint of what that might mean. In addition to the 44m-word database, it carries celebrated articles from past editions, new articles not included in the printed Britannica, essential graphics and illustrations, and -

crucially - references to other Internet resources that can be easily accessed by clicking on an icon.

That last feature is pivotal. By clicking on "hotlinks" within articles, users can access, for example, the Soviet Archives Exhibition provided by the Library of Congress or the Art and Culture of Mexico exhibition at the University of Guadalajara. Here is a real hint of how an Internet encyclopaedia may soon form a gateway to the world's knowledge.

Rapid growth for voicemail

By Alan Cane

Love it or loath it, voicemail, the business equivalent of the domestic telephone answering machine, is here to stay.

According to Dataquest, the marketing consultancy, the UK market alone for voicemail and voicemail products was worth \$163.1m in 1993, a growth rate of approximately 55 per cent in one year.

A recent survey carried out for Octel Communications, a designer and manufacturer of voicemail products, suggests that some 38 per cent of the UK's larger companies now have voice processing systems installed, with manufacturing industry the most enthusiastic.

Financial services companies, however, seem the most satisfied, with almost three-quarters of those surveyed reporting improved customer service.

Management, however, tended to be unenthusiastic about voicemail until after installation. "Initial resistance," the survey said, "seems to be linked with a sense that the company may be losing its human face." Indeed, a major disadvantage detected was that some staff hide behind voicemail either to avoid answering calls or to camouflage absence.

The principal errors that management makes in installing new technology - failure to train staff adequately, or to measure response - were very evident in voicemail. Michael Persky, Octel's marketing director, said: "Only 59 per cent of companies installing voicemail make training for users compulsory. This should be 100 per cent if organisations are to maximise their investment."

Can it be only a matter of time before European companies follow the lead of their US contemporaries and appoint "voicemail police" to check that colleagues are changing their greetings regularly and listening to their mail? "Getting the Message: trends in Voice Processing, \$25 from Firefly Communications, 071-381 4505.

Businesses warned over lax security on Internet

How secure is the network? Stephen McGookin reports

When General Electric of the US admitted recently that computer hackers had gained access to sensitive company material via the Internet, it raised fears among businesses about the confidentiality of their dealings on the rapidly-expanding worldwide computer network.

"Many people believe the Internet offers them all the security of a royal telephone call," says Gerry O'Neill of Britain's National Computing Centre in Manchester, speaking ironically.

He estimates that around 60 per cent of all traffic on the Internet is of commercial origin, based on message exchanges using the .co suffix, which identifies business users. "Security practices which are required for an internal network with a few thousand users simply do not guarantee secure links to an Internet community of 35m people," he says.

The responsibility rests with companies to establish their security properly. But there are indications that some of the 25,000 or so companies worldwide thought to be using the Internet commercially may not be taking security as seriously as the risks warrant, or that they do not regard their data as particularly sensitive.

A survey in the US last

month by Ernst & Young and Information Week magazine quizzed more than 1,250 various-sized companies. More than half admitted suffering some kind of loss due to computer security problems, but 34 per cent of respondents said their senior management saw information security as only somewhat important, and 8 per cent - around 100 companies - said the issue was viewed as not important at all.

Dr Brian Neale, a UK-based specialist on Internet security with US computer company Digital Equipment, points out that once a system's security has been breached, its advantages are lost to legitimate users until the problem is solved. Even if the loss is only for a few hours, the cost can be high. GE's system was off the Net for about a week.

"The scramble among businesses not to be left behind by the Internet revolution has meant that the normally high security standards found among large IT users are not mirrored in their policies towards the Internet," Dr Neale says. He estimates that three-quarters of large firms currently using, or intending to use, the Internet fall into this category and are unprotected, making them "dangerous drivers on the information superhighway". In a study called *Secure Connections to the*

Internet, Neale outlines the need for effective security procedures - known as firewalls. In effect, these are "gateway" computers which distinguish authorised access from unauthorised. "The aim of the Digital Firewall is to allow employees to gain access to Internet services in as near-transparent fashion as possible, while preventing access of unauthorised external users," he says.

Britain's Department of Trade and Industry has a permanent team working on policy for IT security. With several leading companies, including BT, Unilever, Midland Bank and Nationwide Building Society, the team has produced a code of practice advising information security managers how to establish and develop a secure information strategy.

But a big part of the security problem as it specifically relates to the Internet is that there is no visible regulator or any overall authority that formally polices those who use the system.

Fundamental legal requirements are laid down by the 1984 Data Protection Act, one of the principles of which states that "appropriate security measures shall be taken against unauthorised access to or alteration, disclosure or destruction of personal data and against accidental loss or

destruction of personal data."

While the 1990 Computer Misuse Act does not impose any statutory requirements on businesses, its aim is to deter unauthorised access to, and modification of, information held on computers.

It created three offences: acting with intent to gain unauthorised access to programs or data held on computer, unauthorised access with intent to commit or facilitate commission of more serious offences; and unauthorised modification of the contents of a computer.

The DTI believes companies should promote awareness of these offences as part of their computer security policies, in addition to taking steps to reduce the risk of offences being perpetrated on their computer systems.

As became clear from the GE breach, even the existence of sophisticated firewalls does not deter dedicated hackers. What is obvious, however, is that as the nature of on-line commerce evolves, companies will be forced to reassess their computer security provisions almost continually.

Dr Brian Neale, who is author of the report *Secure Connections to the Internet*, can be contacted at brian.neale@sbp.mts.dec.com or through the Digital company liaison: shani.morris@re0.mts.dec.com.

Demos calls for regulator for communications

By Alan Cane

A new regulator - OfCom - responsible for all telecommunications and broadcasting networks is one of the core proposals in a newly-published analysis of the social and political implications of information technology. It comes from Demos, a radical think-tank, whose advisory council includes John Ashworth, director of the London School of Economics, and Martin Taylor, chief executive of Barclays Bank.

Its views are expressed in a series of articles published both on paper and on the Internet. Geoff Mulgan, its director, says in an introductory essay that regulatory structures in UK communications

have become too complex, and that the regulation of networks should be consolidated into an Office of Communications. "The core of OfCom should take the form of a commission, with open recruitment and hearings before a select committee on the membership and chair," he writes.

Its primary goal should be the achievement of satisfaction, or welfare, among the public, he says, with competition as a means, not an end. He advocates a separate regulator responsible for taste and content in the cinema, press, television and video worlds.

Martin Cave, professor of economics at Brunel University and a special adviser to Britain's existing telecommunications

regulator, raises questions in a further essay about the way a combined regulator might operate. "The key lies in the recognition that communication services involve a series of stages, beginning with creation of the message, in some cases involving a bundling or wholesale function and culminating in delivery to final consumers. The regulator should seek to examine the degree of dominance at any stage in the process, and in the case of bottlenecks for essential facilities, mandate access, institute price control arrangements or take alternative actions."

Liberation Technology, £5, from Demos, 9 Brixton Place, London EC4 6AP.

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FI

FINANCIAL TIMES Newsletters

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INVITATION TO EXPRESS INTEREST IN THE MANDELLI GROUP IN EXTRAORDINARY ADMINISTRATION

The Mandelli Group is one of the main producers of machine tools in Italy and is present on the domestic and international markets with the following manufacturing companies: Mandelli Industriale s.p.a. (Piacenza); Mandelli s.p.a. (Piacenza); Mandelli 2 s.p.a. (Montebelluna); Spring s.p.a. (Piacenza); Hitec Campania s.p.a. (Montebelluna); Prometa s.p.a. (Montebelluna); F.M.S.-PAMA s.p.a. (Rovereto); Inasse Macchine Utensili s.r.l. (Brescia); Saimp Sistemi s.p.a. (Padova); Plasma s.p.a. (Piacenza).

The Group is operating within the recovery plan according to art. 2, para. 5, of law 3 April 1979, no. 95 (Prodi Law), approved by the Minister of Industry on June 30th, 1994, and has already obtained a significant backlog of orders in Italy and foreign countries.

The Commissioner intends to start a procedure for the sale of the assets belonging to the Mandelli Group (tangible and intangible assets except for debts and credits prior to the beginning of the Extraordinary Administration, and with the exclusion of specific accounts payable and receivable, and the employment rate in line with the plan) within the scope of the extraordinary administration, and therefore

invites

the parties interested in purchasing to express their interest in writing, by registered mail, to Mr. Vincenzo Nicastro - Commissioner of the Mandelli Group in extraordinary administration c/o notary public Marchetti - Via Agnello, 18 - 20121 Milano (Italy), specifying:

- identification of the interested party, which should be a limited company or other collective body, with the list of the first 10 shareholders and a copy of the last approved balance sheet;
- a short description of the item and reason of interest;
- the commitment to confidentiality regarding all the information which will be provided by the Commissioner;
- a declaration that the interest is exclusively personal, or, on behalf of third parties, details on the principals and the information requested in the above point a), should be provided;
- any other indication which is considered useful by the interested party in order to highlight its economic and financial possibilities in view of the acquisition;
- the subscription by the legal representative of the interested party, or the copy of the power of attorney in case of application on behalf of third parties.

The parties which will have expressed their interest according to the above instructions within February 28, 1995 will:

- rely on confidentiality concerning the existence and contents of their communication;
- obtain an informative document containing the main data of the companies object of interest;
- obtain subsequent information, except for what the Commissioner considers covered by secrecy (manufacturing procedures, name of customers, etc.).

Once the information phase is completed, the Commissioner reserves the right to open a bid for sale of the assets belonging to the Mandelli Group, in the form and according to the conditions subject to public announcement.

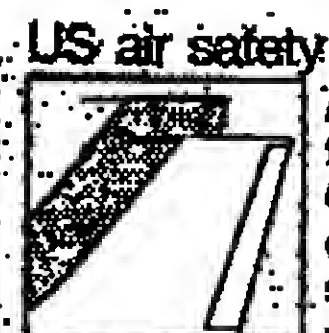
This announcement does not, at any effect, constitute:

- offer to the public according to art. 1336 of the Italian civil code.
- public offering of securities, since the items subject to future sale will not in any case, directly and indirectly, consist in stocks or securities of any kind.

This announcement and the consequent relationships, for which the governing text is exclusively in Italian language, are subject to Italian law and jurisdiction.

The Commissioner of the Mandelli Group in Extraordinary Administration (avv. Vincenzo Nicastro)

BUSINESS TRAVEL



US air safety
Air travel in the US over Christmas could be severely disrupted following the grounding of dozens of commercial flights because of a breakdown on computer airline safety systems. As the weekend American one commuter operations to mid-west cities for the second time in less than a week, and KLM International Airlines suspended all services. Comair has given US aviation its worst safety record in six years, with

the pull over the commuter airline industry deepened by two American Express flights in five weeks that killed 83 people. The result is that some travellers have been scrambling for rental cars rather than short-hop flights.
Prompted by last week's crash of an American Eagle UK-built Jetstream Super 31 (a two-engine turbo-prop), US transportation secretary Federico Peña said that commuter airlines in the US faced more safety inspections and their crews would get more rest under new safety rules. He said American Eagle has been observing the

safety standards required for largest aircraft, but that the 100-seat plane would not be allowed to fly until it meets the same standards as regular airlines.
Peña set a 100-day deadline for this to be achieved. "We are very troubled by the number of accidents we've had this year," he said.
An American Eagle spokesman said the company had complete confidence in the type of aircraft it uses.

Florence terminal
Florence inaugurated its new Amerigo Vesputi air terminal, named after the Florentine explorer, on Saturday, writes Andrew Hill in Milan.
The opening raised the competition stakes with Pisa's airport, which, though 90km away, is the traditional arrival point for Florence's tourists because of its long runway.
Florence airport is already served by small jets operated from the UK, France and Germany by carriers including Meridiana, UK Air and Lufthansa. It claims to be the third largest airport in Italy, judged by number of destinations served by scheduled airlines.

Chinese road accidents
Business visitors to China may ponder its death and accident rates for road travel. More than 6,000 people were killed on the roads in China last month, the National Public Transportation Security Department said. This was a rise of 10.1 per cent on November last year, the department added in a report carried by the Xinhua news agency yesterday.
Road accidents rose 3.7 per cent to 23,046; 12,480 people were injured, up 2.8 per cent.

Peace dividend
Royal Jordanian Airlines says it hopes peace with Israel will produce a surge of traffic next year to restore its financial health. The airline is expecting to record a loss this year, says Nadar Darwish, its president, though he hopes that Middle East peace-making will help boost revenues after years of decline.
He said that Royal Jordanian was co-operating with Israel's El Al to "share a new market on commercial lines which will be beneficial for the two sides". The peace process held out hopes of more traffic, especially from north America and Europe, Darwish said. A draft Jordanian-Israeli civil aviation treaty will be signed soon.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thurs	Fri
London	12-18	10-15	10-15	10-15	10-15
New York	10-15	10-15	10-15	10-15	10-15
Frankfurt	10-15	10-15	10-15	10-15	10-15
Stockholm	10-15	10-15	10-15	10-15	10-15
Paris	10-15	10-15	10-15	10-15	10-15
Madrid	10-15	10-15	10-15	10-15	10-15
Amsterdam	10-15	10-15	10-15	10-15	10-15
Brussels	10-15	10-15	10-15	10-15	10-15
Geneva	10-15	10-15	10-15	10-15	10-15
Zurich	10-15	10-15	10-15	10-15	10-15
Vienna	10-15	10-15	10-15	10-15	10-15
Berlin	10-15	10-15	10-15	10-15	10-15
Munich	10-15	10-15	10-15	10-15	10-15
Frankfurt	10-15	10-15	10-15	10-15	10-15
Stuttgart	10-15	10-15	10-15	10-15	10-15
Düsseldorf	10-15	10-15	10-15	10-15	10-15
Cologne	10-15	10-15	10-15	10-15	10-15
Dortmund	10-15	10-15	10-15	10-15	10-15
Essen	10-15	10-15	10-15	10-15	10-15
Duisburg	10-15	10-15	10-15	10-15	10-15
Münster	10-15	10-15	10-15	10-15	10-15
Bielefeld	10-15	10-15	10-15	10-15	10-15
Wuppertal	10-15	10-15	10-15	10-15	10-15
Bochum	10-15	10-15	10-15	10-15	10-15
Uniforum	10-15	10-15	10-15	10-15	10-15

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The pick of the Parisian 'palaces'

Nicholas Haslam offers a guide to the benefits – and expense – of staying in the top hotels

Parisians modestly call their best hotels "palaces", but then argue hotly over which ones merit the title. Yet no one seems to doubt that the Plaza Athénée, the King George V, the Crillon and the Ritz are in line for first place.

Sited in the exclusive central 1st and 8th arrondissements, and the briefest of limousine rides from La Défense business and commercial district, these hotels cater for those whose pockets – or expense accounts – are deep.

Rooms at the Plaza start at FF2,300 (£280), while a presidential suite costs FF9,440. For this, however, you will receive some of the best service any hotel can offer, and join a guest list that reads like an international Who's Who.

A few Metro stops from the Champs Elysées, the Grand Hotel Intercontinental looms beside the Opera in the heart of the Grand Boulevard district. With 814 rooms, the Grand is two stops from La Défense on the express rail RER, and has one of the largest conference rooms in the centre of Paris. Sixty per cent of guests are business people.

A single room costs FF1,600, but low-season reductions of up to 26 per cent are available. Do not count, however, on hanging on to your savings: partners waiting for spouses to return from interminable business meetings can go shopping at Galeries Lafayette across the road, where guests from

People say in Paris that if you work on the Right Bank, you play on the Left

the Grand get a 10 per cent discount.

If you want to lunch outside the hotel, the area is full of excellent little restaurants. The Petit Gaillon in Rue Gaillon, just by the Opera, has excellent French and Senegalese food, and the Chantier at 7 Faubourg Montmartre offers reasonable food amid the décor of a 19th century brasserie.

People say in Paris that if you work on the Right Bank, you play on the Left. For those not tied to full schedules at La

Défense, many hotels on the Left Bank have a particular character and charm. The Lutétia on Boulevard Raspail has one of the best art deco facades in Paris. It is close to the Senate and the Sorbonne, and many guests are diplomats, politicians and academics.

The hotel has 280 rooms and 12 conference rooms, the largest of which can hold up to 600 people. Rooms start from FF950, while a two-bedroom apartment costs FF6,000. The Brasserie Lutétia facing the hotel is a well-known rendezvous. (While sipping a beer and watching the crowds go by, it is best not to think of the Lutétia's guests half a century ago, when the hotel served as Gestapo HQ.)

Not far from the Lutétia, next to the Gallimard publishing house, is Hotel Montalembert. Reopened in 1981 after a year-long restoration, the hotel oozes Left Bank literary chic. An oak-panelled library opens off the main foyer, and the hotel numbers Carlos Fuentes and William Boyd among its guests.

The 61 rooms and five suites are individually furnished in a mixture of traditional and



modern French design, and start at FF1,825. There are two conference rooms, the largest with a capacity for 25.

At the back of the Montalembert, on Rue de l'Université and Rue Jacob respectively, are two smaller hotels patronised by fashion buyers, journalists, artists and musicians.

The Lenox has 30 designer-furnished rooms, and those on the top floor have views across lead-covered roof tops to the Louvre across the Seine. A double room costs FF950 and a duplex apartment FF960.

La Villa, 100 metres down the road, has 32 rooms and a jazz club with an international

reputation in the basement. The management stresses that the club is well insulated from the rooms above, which start at FF800 (suites FF1,950).

Women business travellers alone in Paris should note that the Left Bank is one of the city's most secure areas, night and day. And non-French speakers should get a copy of Pariscope, a weekly magazine with a section in English that lists everything, from theatres to flea markets.

Plaza Athénée, 25 Avenue Montaigne, 75008 Paris, tel: (1) 47 23 78 33, fax: (1) 47 20 20 70, George V, 31 Avenue George V,

75008 Paris, tel: (1) 47 23 54 00, fax: (1) 47 20 40 00.

Ritz, 15 Place Vendôme, 75001 Paris, tel: (1) 42 60 33 30, fax: (1) 42 60 23 71, Crillon, 10 Place de la Concorde, 75008 Paris, tel: (1) 44 71 15 00, fax: (1) 44 71 15 02, Grand Intercontinental, 2 Rue Scribe, 75009 Paris, tel: (1) 40 07 32 32, fax: (1) 42 66 12 51.

Lutétia, 45 Boulevard Raspail, 75007 Paris, tel: (1) 49 54 46 46, fax: (1) 49 54 46 00, Montalembert, 3 Rue de Montalembert, 75007 Paris, tel: (1) 45 43 68 11, fax: (1) 42 32 38 15.

Lenox, 9 Rue de l'Université, 75007 Paris, tel: (1) 42 96 10 95, fax: (1) 42 61 52 53, La Villa, 29 Rue Jacob, 75006 Paris, tel: (1) 43 26 60 00, fax: (1) 46 34 63 62.

An hour to spare: Paris The glories of the Khmers

You are in Paris, with an hour between meetings. What to do?

The suburb of Passy seems a long way from Phnom Penh. But here, safely preserved in the Musée Guimet, is the greatest collection of Khmer sculpture outside Cambodia – and one of the least trumpeted art treasures of Paris.

The Musée Guimet holds a kind of cultural litmus paper up to France's far eastern colonial past, but its glories are the outstanding Khmer carvings, displayed in just three ground-floor galleries.

The Khmers seem to have originated in southern India and to have imported and adapted their native religion and culture, establishing themselves during the ninth century as the dominant power in Indo-China for half a millennium. Their legacy is a complex of temples encompassing five centuries and some 76 square miles.

While Angkor Wat, the funerary monument, holds its head high, beside the great Gothic cathedrals of northern Europe, the sculpture of Charles peels beside the bas-reliefs and free-standing sculpture of Angkor.

An exquisite red sandstone Intel from Banteay Srei.

carved with scenes from The Ramayana, illustrates the vigour and originality of the Khmer artists, even in the 10th century. A glorious horse-headed deity is a version of Vishnu, the stone of his torso and head polished to a satin silvery grey. All around, benign deities cast enchanting enigmatic smiles and voluptuous asparas (dancing girls) leap gracefully in bas-relief.

Theatricality spotted in an inner sanctum is the sculpture in the style of the Bayon, the temple built by Jayavarman VII (1181-1201). Jayavarman, a late convert to Buddhism, believed himself the Buddha incarnate, and his image smiles down from the victory gateway and the 54 peaks of the bayon. The Guimet has a head of this serene god-king. It is a work of enormous subtlety and beauty.

If you have time for nothing else, this is the place to stop.

• Musée Guimet, 6 Place d'Iena, Paris

Susan Moore

CONFERENCES & EXHIBITIONS

JANUARY 11
Presentations for Professionals by Professionals
Sharpen your presentation skills in a West End theatre. Businessmen, designers, actors and comedians will show you how to persuade, influence, amuse, ensure impact and memorability, create selling slides, use humour... Learn how to produce unforgettable presentations.
Contact: Executive Presentations
Tel: 0171 251 5053 Fax: 0171 490 0566
LONDON

JANUARY 11-12
Re-engineering for Growth-Executive Workshop Led by Robin Talwar
An intensive workshop for executives keen to break out of the anorectic cost reduction spiral and initiate genuine transformation. Examines how we can use BPR to create the capabilities, flexibility and openness to learning that will ensure future growth and competitiveness. Facilitated by an international authority on re-engineering and transformation.
Contact: The Centre for Business Transformation
Tel: +44 (0)171 433 3370 (24 hours)
Fax: +44 (0)171 794 3568 (24 hours)
LONDON

JANUARY 24 & 25
Re-engineering the IT Function: Re-aligning IT, culture, capabilities and skills to deliver radical business performance improvement.
An international two-day conference of leading experts and practitioners which explores the integration of new strategies, development of new organisations and management structures to enable IT to play a key role in transforming the business.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

JANUARY 30-31
Publishing in the Russian Market - Strategies for Foreign Periodicals & Press
Examining the rapidly developing publishing market, opportunities for western publishers, marketing strategies, distribution techniques, circulation problems & copyright. Chairman: George Green, Hearst Magazines International, USA. Expert speakers from Europe & Russia.
Contact: INTERFORUM
Tel: +44 (0)171 386 9322
Fax: +44 (0)171 381 8914
LONDON

FEBRUARY 2
Impact of Derivatives on Securities Markets
A high-level conference to examine the impact of the growth of derivatives on securities markets. Speakers will include senior representatives from LIFFE, SOFFEX, London Stock Exchange, J.P. Morgan Securities Ltd, Union Bank of Switzerland, Deutsche Börse AG and Banque de France.
Contact: Arlette Sirona, Dow Jones Telestar
Tel: 0171 832 9737 Fax: 0171 353 2791
LONDON

FEBRUARY 8
FT - Interconnection
The Evolving UK Programme and its International Context
This conference, organised by OPTTEL and FT Conferences, focuses on the critical role and the competitive edge as it goes into the second decade and how OPTTEL proposes to ensure interconnection arrangements in the UK fully meet the needs of a multi-operator market.
Contact: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

FEBRUARY 20
FT London Motor Conference
The conference will focus on block exemption, consider the changing relationship between vehicle manufacturer and distributor and address the question of competitiveness in the components sector.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

FEBRUARY 20 - 21
Business Process Re-engineering (BPR)
Leading seminar series on Business Process Re-engineering. Banned 1995 programme includes new sections on self-managed teams and radical BPR. Coaching style of presentation. Based on 150 successful BPR projects. 60 organisations in the private & public sectors attended in 1994. Reopened March 20-21.
Contact: Richard Paris, Vertical Systems
Tel: 01455-250266 Fax: +44 1455-890821
LONDON

FEBRUARY 22-23
Pay Appraisal and Career Development
A practical guide to the latest techniques for achieving excellent employee performance in the delivery organisation. This important two-day conference explores how to radically improve your business performance by linking individual targets to corporate objectives through effective reward, appraisal and motivation systems.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

FEBRUARY 27 & 28
FT Cable, Satellite & New Media
The forum will look at the convergence of telecommunications, computers and entertainment. It will also examine the new alliances and mergers that corporations are setting up, the potential of new technologies and the increasing choice of programmes.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

MARCH 6 & 7
FT World Steel Industry
The aim is to bring together speakers from around the world to share their views on the key questions facing the steel industry such as its future structure, alliances and mergers, privatisation and new technology.
Enquiries: Financial Times
Tel: 081 673 9000 Fax: 081 673 1335
LONDON

MARCH 20 & 21
FT World Pharmaceuticals
This conference, arranged jointly with Coopers & Lybrand, takes as its theme 'Realising the Ambition'. Leading figures will outline their vision and strategies for moving from being pharmaceutical product-based companies to becoming healthcare players.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

MARCH 30
Banks, The City and Politics
The banks and the economy: industry, the press, the government. The Chartered Institute of Bankers' annual conference is sponsored by AT&T and will be chaired by Sir McGregor. Speakers include Eddie George, Tom Pinner and Christopher Pidd. Contact: Gillian Wright, CIB
Tel: 0227 762600 Fax: 0227 763785
LONDON

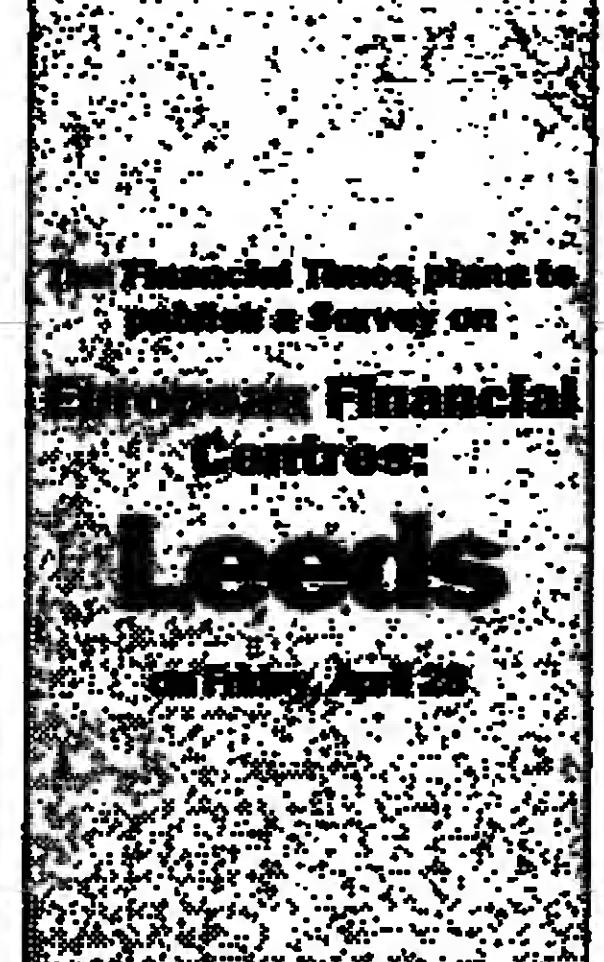
APRIL 20
FT Marketing Professional Services '95
Arranged in association with Professional Marketing, this Congress is built around a series of workshops providing practical guidance in getting better business as well as playing a role in the development of the prestigious 1995 FT Professional Marketing awards for professional services firms worldwide.
Enquiries: Financial Times
Tel: 081-673 9000 Fax: 081-673 1335
LONDON

JANUARY 25-26
Beyond Re-engineering for Global Competitiveness and Growth
This conference will explore how organisations can increase global competitiveness and growth by improving or innovating business processes to be more customer-focused, maximising workforce potential and incorporating change management principles. Keynote speaker: European Commissioner Martin Bangemann. Jointly presented by The Conference Board Europe, the British and French Chambers of Commerce. Contact: Kathleen Stuart-King at The Conference Board Europe in Brussels.
Tel: 32-2675.5405 Fax: 32-2675.0395
BRUSSELS

JANUARY 26
Info to the Information Society:
Hosted by IBM Europe, this one-day forum for public affairs and IT specialists will focus on the impact of the Information Society. Speakers from the European Commission and Parliament, consumer groups and leading European industries will examine the key social implications of the Information Superhighway and how global cooperation is to be encouraged.
Contact: Kathleen Stuart-King at The Conference Board Europe in Brussels.
Tel: 32-2675.5405 Fax: 32-2675.0395
BRUSSELS

FEBRUARY 27 - MARCH 2
Lafferty's Cards & Payments Convention
"An Industry Revolution is Making"
Three successive events: 1st Bank Card; Smart Card and Electronic Payments Conferences. Programme to include: technology, financing, third-party processing, POS updates and cross-border payments. Senior level speakers from leading financial institutions worldwide. DON'T DELAY FOR FURTHER INFORMATION. PLEASE CONTACT:
Elaine Flessinnes, Lafferty Conferences
Tel: (+353-1) 671 8022 Fax: (+353-1) 671 3594
FRANKFURT

FEBRUARY 20-25
Banking into the 21st Century
This high profile conference will discuss the direction International Bankers will take as we move towards the millennium. Topics include: Credit cards and local credit systems, Western accounting standards, factoring, leasing, currency dealing and banking services.
Contact: Michael Moran, Royal Bank (UK) Ltd
Tel: 0181 332 6644 Fax: 0181 332 6124
SWITZERLAND



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Alexandra Ballinger, Queen Street,
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FT Surveys

DIVIDEND & INTEREST PAYMENTS

TODAY
Aquarius Plus Sec. FRN 2000
\$252.78
Bank Scotland 2.15p
Ebara 2.25 Bd. '98 Y720000.0
Gold Int. Sec. FRN '99
Y739375.0
Gaz Met. 10.9% Db. Dec. '95
C\$108.75
Gen. Motors Acc. (UK) 10.9%
Nts. Dec. '95 E106.25
Gieves 0.5p
Gold Int. Fin. B. FRN '02
Y77291.0
Hankyu 5.85% Bd. '02
Y585000.0
Do. FRN 1996 Y67618.0
Japan Air. 5.5% Bd. '98
Y550000.0
Do. 5.7% Bd. '02 Y570000.0
Do. 8.4% Gtd. Bd. '98 \$406.25
Kansai Elect. Power 8.4%
Nts. '95 C\$87.50
Mercury Asset Mgmt 4.5p
NEC 5.7% Bd. '02 Y670000.0
Overseas Inv. Tst. 2.45p
Prudential Fdg. 8.4% Nts.
Dec. '95 C\$82.50
Sanwa Australia Fin. Gtd. Ftg/
Fxd Rate '02 \$2767.92
Sino-Thal Eng. 1.4% Cv. Bd. '03 \$17.50
Smart (J) 6.2p
Sumitomo Chem. 5.6% Bd. '99
Y550000.0
Sumitomo Realty FRN '96
Y65090.0
Waburg (SG) 6p
Woollich Bldg. Scty. 11.1%
Sb. Nts. '01 \$281.25
YTB Fin. (Aruba) Gtd. Sb. Ftg/
Fxd Rate '02 \$7200.0
Yasuda Tst. Asia Pac. Ftg/Fxd
Rate Nts. '02 \$2869.03
Yasuda Tst. (Lux.) Ftg. Rate
Gtd. Nts. 2000 \$133.34

TOMORROW
Burnham Control (Jersey) 9.4%

CV. Bd. '06 247.50
Chamberlin & Hill 2.25p
Coventry Bldg. Scty. FRN '97
\$151.15
DPS Furniture 4.5p
Euron 0.20p
Euros & Suffolk Water 10.4%
Db. 94/96 E5.25
Do. 3.4% Perp. Db. E1.75
Do. 4.9% Perp. Db. E2.0
Do. 5.9% Perp. Db. E2.50
First Ireland Inv. 0.25p
Five Oaks Inv. 0.3p
Italian Int. Bank Sb. FRN '96
\$260.52
Mount Charlotte 10.4% 1st
Mtg. Db. '14 E5.375
PowerGen 5p

WEDNESDAY
DECEMBER 21
Alcan Aluminium 0.075
Chester Water 1.95p
Dixie (James) 2.5p
Edinburgh Invt. Tst. 0.04p
Euros & Suffolk Water A 40.8p
Do. N/Vtg. B 40.8p
Hercules 0.56
Royal Bank Can. Fd. Ftg. Pf.
C\$0.025
Saracen Value Tst. 0.5p
Sketchley 1p
Unilever FL1.48
Woollich Bldg. Scty. FRN '99
\$151.15
Yokohama Fin. Cayman Gtd.
Sb. FRN '05 Y67222.0

THURSDAY
DECEMBER 22
Broadcast 0.5p
Flaming Chinese Inv. Tst. 0.5p
GR (Hedge) 0.7p
Halliburton 80.25
Havelock Europa 1p
Larino 10.4% Db. 2009
\$5.1875
Marine Mid. Banks FRN '08

FRIDAY
DECEMBER 23
Aircraft Lease Port. Sec. A2
FRN Jun. '97 \$294.83
Anglo American Coal Rt. 80
FRN Jun. '97 \$294.83
Break for the Border 0.33p
Broadgate Inv. Tst. 1.6p
Coats Vytella 4.375p
Cobham 4.2% 2nd Cm. Pf. 2.1p
Devenish (JA) 10.4% Db. '17
E5.125
Hambros 4.5p
Do. N/Vtg. 2.1p
Italy (Rep of) FRN 2000
\$250.99
Leeds Perm. Bldg. Scty. Sb.
Var. Rate Nts. E163.15
Lax Service 8.4% Pf. 2.275p
Marine Midland Bk FRN '96
\$192.71
Midland Bank Und. Ftg. Rate
Cts. '02 \$285.89
Skipton Bldg. Scty. Sb. FRN
2000 E31898.66
Woollich Bldg. Scty. 9.4%
Fxd/Ftg. Rate Nts. '95 E28.43

SATURDAY
DECEMBER 24
Manchester 3% Rd. Cons. 75p
Do. 4% Cons. Ird. 2.0

UK COMPANIES

TODAY
COMPANY MEETINGS:
Benchmark, Grp., Institute of Chartered Accountants, Moorpark Place, E.C., 12.00
Ivory & Stone Enterprise Capital, 1, Charlotte Square, Edinburgh, 12.30
McKean, Savoy Hotel, Strand, W.C., 3.00
UK Estates, 19-21, Spring Gardens, Manchester 11.00
BOARD MEETINGS:
Fruite
Aberdeen Tst.
Burnside Inv.
Care UK
Interim
Bransby
East Midlands Electric
Edinburgh Japan Tst.
Equity Consent Inv. Tst.
Ewart
Ivory & Stone
W. TOMORROW
COMPANY MEETINGS:
F & O Eurostar, Exchange House, Riverside Street, E.C., 12.15
Scottish Value Tst., Caladenia Hotel, Edinburgh, 12.00
Uniforum, 61, Doughty Street, W.C., 3.00

BOARD MEETINGS:
Fruite
Eurotherm
Infinita
Forminter
Lauronville & Burchett
Schneider SpA
Wessex Water
W. TOMORROW
COMPANY MEETINGS:
F & O Emerging Markets Inv. Tst., Exchange House, Riverside Street, E.C., 12.15
North American Gas Inv. Tst., Chartered Accountants, Moorpark Place, E.C., 12.00
Queens Most Houses, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 11.30
Trace Computers, 224-232, St. John Street, E.C., 2.30
BOARD MEETINGS:
Interim
British Thomson

OPENINGS

'Method' married to madness

Nigel Andrews talks to Rod Steiger, who returns to the cinema after ten years in the wilderness

What do you do if an unexploded bomb is lying about in your movie? Do you defuse or detonate it? Or do you just rejoice that it is there? *The Specialist*, opening on Boxing Day, is a Sylvester Stallone thriller full of fake explosions and dummy showdowns: but it has one genuine exposed bomb in its cast. The name is Rod Steiger. The 59-year-old Jewish-Irish actor is back as Oscar winner for *In The Heat Of The Night*, ex-sparring partner to the great Brando in *On The Waterfront* and for decades the most articulate spokesman for the postwar era's best-known acting tradition. *The Method*.

In *The Specialist* Steiger, marrying madness to Method, careers about the screen with a gun and Cuban accent as if he had never been away. But for ten years he was away, in a private hell of near-clinical depression. It was caused in part by a faltering career and bad role choices. I met him recently in Hollywood. Yachting cap on head, face round as a Gouda, voice primed for that raspy singsong, he talked for two hours about acting, with a passion and breadth I have never met in any other practitioner.

Steiger accepts that he is no longer first choice for top character roles in modern Hollywood. "Every time I see something I like," he says, "I run into Sean Connery or Gene Hackman." But he is still mildly shocked when he encounters executives who demand an interview before casting him.

"They've never heard of me. Some of your executives today are 30 years old, what the hell do they remember of me? You just have to go in and swallow your pride. I figure if Brando could do a screen test for *Godfather* - smartest move he ever made - I can do auditions too."

False pride he has given up. He vanished into his black hole, compounded of drink, divorce pains and career depression, soon after making what he thinks was his worst ever career judgment: turning down the lead role in *Pastor*.

"I woke up one morning and I was young and vibrant and alive and my philosophies were strong, and I said I'm a pacifist! I'll have nothing to do with this man. Biggest mistake of my life. If I'd been successful in that part, and it won George C. Scott an Oscar, I might even have had a shot at the *Godfather*."

Instead the Steiger glory days are

the 1950s and '60s, when in the era before Hoffman or De Niro he was a one-man phenomenon: a character actor with the power and presence to push into stardom.

Steiger thinks he never pushed quite that far. "I was never a leading man. I missed that one pre- requisite for real stardom. I never was what they call a 'sex symbol'. If you don't get the female following of a tribe, you don't get that big as an actor. Brando had it. James Dean. Nicholson even has it - the attractiveness of evil."

So he settled for the rollercoasting life of a high-exposure character player. There was joy here, from "the freedom of being other people". And there was fear too: the ever-changing challenges on stage and screen.

"Fear motivates an actor," says Steiger. "I'm gonna try to be good in this part," you say, and you don't care who is watching, you *have* to entertain them. If I was in a room with just an automatic camera, and lighting, and no human beings, and there was just the studio cat, I'd worry about how the cat was reacting. Or a cockroach. Did the cockroach look at me? Did I entertain him?"

"But there's a price to pay for living with the childhood romantic dream of having adventure and challenge. After a while you don't have so many 'highs', because you don't get employed that quickly any more. And then you watch out because boredom comes in and you're looking frantically for something to give that fear again, because you misinterpret that fear as being alive."

Glamour, not terror, lured him into acting. "I came from a neighborhood in Newark, New Jersey, where if you put the garbage out and helped with the dishes your mother gave you fifteen cents and you went to the movies on Saturday afternoon and watched the golden people."

Steiger's voice rises and stretches on that "g-o-l-d-e-n". He knows, even off camera, where the oomph should come in a sentence. When he joined the golden people himself, enrolling in the Actors Studio, then going on stage and TV to sway his reputation as a powerhouse. Everyman, Steiger became famous for pushing and pulling his scripts. Not just accents and emphases but whole words and phrases.

"What are sentences?" he says. "They're prismatic particles, flying

out from the centre of a thought. And you catch the flashing of their individual light and you understand that sentence. So you fool around with it a little, so long as you keep the meaning."

He and Brando did so in the famous taxi scene in *On The Waterfront* ("I coulda been a contender, Charlie"). The scene was born, recalls Steiger, from an accumulation of happy mishaps.

"We spent eleven hours shooting. The producer Sam Spiegel had promised us back-projection. When Kazan the director arrived, there was no street footage to project behind the cab's window."

"Well, a crew member said he'd come in that day in a taxi with venetian blinds. So Kazan used that. And we were in that tight space - half a mock-up cab - and Kazan brought the camera right in on our faces. We played that scene, and played with it, till it came right."

Waterfront was a watershed in postwar acting: the vindication of the Method in popular cinema. Did Steiger sense this at the time?

"You never know you're doing a revolution," he says. "If you do, you're a pain in the ass. You cannot make love and criticise your performance at the same time."

Let me tell you about the 'Method'. The word was invented by journalists to describe the ideas that Lee Strasberg and Stella Adler brought back from a visit to Russia. In the old style of acting you used conjecture to force an emotion in from outside. With the Method the actor uses involvement to discover the emotions in himself.

"So you find something in your own life. If somebody tells me my daughter's died, I cry." Tears come into Steiger's eyes on cue. (His daughter and only child is the opera singer Anna Steiger.) "But I'm afraid of using that too much, in case I use it up. Another time, I'll use something like I did in *The Big Knife*. I had to get angry in one scene, so I looked at the set and I had just seen - this was after the war - photos of Auschwitz and Treblinka. So I said to myself, 'These people built this place! And that did it for me.' Steiger exploded on cue. Look at the movie today and take shelter."

But the Method has room for more lightweight techniques too. "The famous American actress Shirley Booth was rehearsing a scene on stage where she puts provisions she's bought into the fridge. And the director said, 'Shirley darling! We can't take this long!' So she came in again and did the scene in a fifth of the time, without hurrying. He asked how she did it. 'Oh I have a taxi outside with the meter running,' she said."

Occasionally the actor finds he has no techniques at all to hand.

For *The Pawnbroker* Steiger had to "invent" a moment while the camera was running. "For the scene where I put my hand down on the spindle and the spike goes through, I had done a lot of rehearsal at home. But midway through the shot I thought to myself, 'You son of a bitch. You forgot to practice taking the hand off!' So I couldn't embarrass myself by stopping the camera. I just remembered what I did when ever I panicked, which was to hold my breath, and I took a deep lungful of air and then - phoo! - let it out."

Steiger's greatest early roles were plain men yanked into extremity. But in the late 1950s his career took a startling turn. He began behaving like a one-man *Madame Tussauds*. Pope John XXIII, Mussolini, Rostropovich, W.C. Fields. Real historical figures, topped off by Napoleon in *Waterloo*.

"Oh that's a high!" he rhapsodises. "If I could live for one tenth of a second at the exciting level of a great moment in history, because I somehow made myself believe it was happening to me, why not go for it?"

So he bookwormed through the reference tomes. He had Napoleon's autopsy translated into English; he discovered that the man was riddled with diseases and drugs; he invented a scenario for the Waterloo defeat. "I believe on the night before the battle he bombed himself out on laudanum."

The only thing Steiger refused to do was put his arm inside his coat. Not even for a publicity shot.

"What's a cliché? It's a given truth that's repeated so often that it becomes a bore, a joke. What makes a king or an emperor isn't gestures or royal vowel sounds - 'Men of France!' The man may stammer, he may have a high lipping voice. What makes a king is that when he says he is thirsty, fifty people come bringing water!"

And what makes an actor, I ask, knowing the clock is ticking towards a football match Steiger wants to watch on television.

"We're all of us actors. We act all day long. We act when we say no and we mean yes. We act when we say yes and we mean no. We act trying to seduce a woman. Acting belongs to everyone on earth."

"Why do we do it professionally? People ask me that. You put yourself under the microscope of the world; there must be something wrong with you. Well, I know why I do it." (pause) "Because I want respect." (Hint of red again in the eyes). "For me. For my family."

He lets the words sink into the silence.

"And now get out. (goodhumouredly) I'm turning the TV on! Goodbye!"

Theatre
Sleeping Beauty

A good pantomime, like a good Christmas dinner, is a tricky thing to pull off. First you have your list of ingredients: good dame, hissable baddie, plenty of slapstick, running gags, a songsheet, a chase sequence, a fight, songs, plenty of glitter, a sprinkling of topicality, a pinch of blue (optional) and a pinch of camp (not optional), and those little phums that have to pop out - "he's behind you", "oh yes you will".

Then you must mix your ingredients well, in the certain knowledge that if one thing is missing, it will be the one thing that everybody notices. Even then, when everything is compiled, it might not work out: a little overcooked, a little undercooked, and the whole thing misfires.

The Theatre Royal, Stratford East usually serves up an excellent pantomime. Sad to relate, then, that *The Sleeping Beauty*, this year's offering, seems rather underdone. Most of the ingredients are there, and David Cregan's script treats that difficult line between providing a proper story for the children and working in the traditional pantomime elements. The audience participation is beautifully managed in Philip Hedley's production; there is some nice topicality - the King and Queen are 1990s parents ("but what will people say if I don't bring her up myself," wails the Queen, as a nanny is hired for the baby Beauty) - and the show is governed by an enjoyable dame in the shape of Michael Bertenshaw as a stout, stern, hatchet-faced nursemaid.

But the struggle between good and evil is underplayed: the trio of fairy godmothers is not very funny and the evil fairy appears too seldom to get the hissing up to full steam. The characterisation is a bit vague: the Queen and the King are both silly punies, while the Archbishop and Crispin, Princess Rose's little playmates, have no characters at all to speak of. The songs are rather wishy-washy - with the exception of "Don't Be Brave", an excellent little number rubbishising fairytale heroes - and there are a couple of scenes that should have been left off the list of ingredients altogether: a dream sequence and an overlong preamble for the second act. Take those away, add a bit more spice, slapstick and sheer silliness, and the show might reach its comic potential.

We all know where the proof of the pudding lies, of course, and, to be fair, the children in the audience enjoyed it. But I departed feeling rather undernourished; frustrating, since this is a theatre that you so often leave fascinated, with your sides aching from over-indulgence.

Sarah Hemming

At Theatre Royal, Stratford East to January 28 (081-534-0310).



Back from the brink on Boxing Day: Steiger argues that 'fear motivates an actor'

INTERNATIONAL
ARTS
GUIDE

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Philippe Herreweghe: with the Freiburger Barockorchester and the Collegium Vocale Gent conducts Bach at 8.15 pm; Dec 20, 22

BERLIN

CONCERTS
Philharmonie Tel: (030) 2548 8132
● Berlin Philharmonic Orchestra: conducted by Sir Yehudi Menuhin, with soloist Leonid Gorkhov, plays Mozart, Tchaikovsky and Schubert at 8 pm; Dec 19, 20, 21, 30, 31 (5.15 pm)
OPERA/BALLET
Deutsche Oper Tel: (030) 3 41 92 49
● Siegfried: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 5.30 pm; Dec 27
Staatsoper Unter den Linden Tel: (030) 2 00 4782
● Die Zauberflöte: by Mozart. Conductor Daniel Barenboim, production by August Everding at 7

pm; Dec 20, 23, 25, 28; Jan 1
● Don Quixote: by Tchaikovsky. Conducted by Stolza, choreographed by Nureyev at 7 pm; Dec 26, 27

FRANKFURT

GALLERIES
Schirn Kunsthalle Tel: (069) 29 98 82 11
● Asger Jorn - Retrospective: 167 works by the Danish painter. The fifth chapter in a series of presentations of postwar European artists; to Feb 12

LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● LSO New Year Viennese Concerts: conducted by John Goedgeballe, the music of Strauss in this traditional celebration of the New Year at 7.30 pm; Dec 31; Jan 1, 2
● Royal Philharmonic Orchestra: Christmas concert with conductor Orwin Arwel Hughes at 7.30 pm; Dec 20, 28
Festival Hall Tel: (071) 928 8800
● Johann Strauss Gala: the Johann Strauss Orchestra with director John Bradbury, soprano Marilyn Hill-Smith and the Johann Strauss Dancers plays a programme of music by Strauss. First performance at 3.15 pm, then at 7.30 pm; Jan 1
OPERA/BALLET
Festival Hall Tel: (071) 928 8800
● The Nutcracker: by Tchaikovsky. English National Ballet and its Orchestra choreographed by Ben Stevenson at 7.30 pm; from Dec 21 to Jan 2 (Not Sun)

Royal Opera House Tel: 071 340 4000
● Cinderella: music by Prokofiev. Created by Frederick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Dec 23 (2 pm), 26 (2 pm), 27, 30, 31

● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Philippe Auguin. In Italian with English surtitles at 7.30 pm; Dec 19
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 20 (2 pm), 21, 22, 28
THEATRE
Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec, otherwise at 7.15 pm; to Dec 29 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Danil Kharms. A Royal National Theatre and Theatre de Complicité co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 23, 26, 27
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 19, 28, 29 (2.15 pm), 30, 31 (2.15 pm); Jan 2
Queen Elizabeth Hall Tel: (071) 928 8800
● Cinderella: by Rossini. The Music Theatre London present this new translation by conductor and musical arranger Tony Britten, and director Nicholas Broadhurst at 7.15 pm; from Dec 27 to Jan 3 (Not Sun)

● Rossini's Cinderella: new translation by conductor Tony Britten and director Nicolas Broadhurst at 7.15 pm; Jan 2 (2.15 pm)
Royal Court Tel: (071) 730 1745/2554
● The Libertine: by Stephen Jeffreys, directed by Max Stafford-Clark. Comedy based on the works of the 2nd Earl of Rochester at 7.30 pm; to Feb 4

NEW YORK

GALLERIES
Whitney Museum
1950-61: major Abstract Expressionist works from the last decade of the artist's life; to Mar 12
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Die Fledermaus: by J. Strauss. Sung in German with English dialogue at 8 pm; Dec 22, 29, 31
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 20, 24 (1.30 pm)
● L'Elisir d'Amore: by Donizetti. Produced by John Copely, conducted by Edoardo Müller at 8 pm; Jan 2
● Madama Butterfly: by Puccini at 8 pm; Dec 21, 27, 30
● Peter Grimes: by Britten. English at 8 pm; Dec 19, 23, 28, 31
New York State Theatre Tel: (212) 870 5570
● The Nutcracker: by Tchaikovsky, performed by the NY City Ballet. Tue-Thu 8 pm. Fri 8 pm. Ring for other times and matinees; to Dec 31 (Not Mon)
THEATRE
Manhattan Theatre Club Tel: (212) 581 1212
● Lovel Valour Compassion: latest

play by Terence McNally (of Kiss of the Spiderwoman fame), directed by Joe Mantello. Sun. performance at 7 pm otherwise at 8 pm; to Jan 1 (Not Mon)

PARIS

GALLERIES
Grand Palais Tel: (1) 44 13 17 17
● Pousin: 400th anniversary retrospective to Jan 2
● British Art in French Public Collections: paintings by Gainsborough, Reynolds, Constable, Lawrence and Turner. Closed Tue; to Dec 19
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● Christina Hoyos: Flamenco choreographed by Hoyos, Marin and Gella, music by Peco Arriaga at 8.30 pm; from Dec 22 to Jan 7
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● La Fontaine de Bakhchisarai: ballet by the Kirov company, St. Petersburg at 8.30 pm; Dec 20, 21
● Nutcracker: Tchaikovsky's ballet performed by the Kirov ballet company, St. Petersburg at 8.30 pm; Dec 22, 23, 25, 26, 27, 28, 29, 30, 31
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Le Lac des Cygnes: by Tchaikovsky. Choreographed and produced by Rudolf Nureyev. Conducted by Vello Pärn/Ermano Florio at 7.30 pm; to Dec 31 (Not Sun)

ROME

OPERA/BALLET
Teatro Dell'Opera Tel: (06) 481601

● Cronache Italiane: ballet in two parts based on work by Stendhal at 7 pm; Dec 20, 21, 22, 23

WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● National Symphony Orchestra: perform Handel's Messiah. With conductor Peter Bay, soprano Janice Chandler and mezzo-soprano Stephanie Bythe at 8.30 pm; Dec 19
● New Year's Eve at the Kennedy Center: Members of the National Symphony Orchestra perform popular tunes and waltzes at 9 pm; Dec 31
GALLERIES
National Gallery Tel: (202) 737 4215
● Italian Renaissance Architecture: Brunelleschi, Sangallo, Michelangelo, the Cathedrals of Florence, Pavia and St. Peter's; to Mar 19
Sackler Tel: (202) 357 2700
● Paintings from Shiraz: the arts of the Persian book created in the city of Shiraz during the 14th-16th century; from Dec 24 to Sep 24
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● The Bartered Bride: by Smetana. Conducted by Heinz Fricke. In English at 7 pm; Dec 31; Jan 2
THEATRE
Olney Tel: (703) 924 3400
● Cinderella: Rogers and Hammerstein musical version of the classic fairytale, directed by Mark Wadrop at 7.30 pm; to Dec 31
Shakespeare Tel: (202) 393 2700
● School for Scandal: by Sheridan. Directed by Joe Dowling at 8 pm; to Jan 7

WORLD SERVICE

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NBC/Super Channel: FT Reports 1230.

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WEDNESDAY
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FRIDAY
NBC/Super Channel: FT Reports 1230
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SUNDAY
NBC/Super Channel: FT Reports 2230
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Samuel Brittan

How to miss on the inflation target



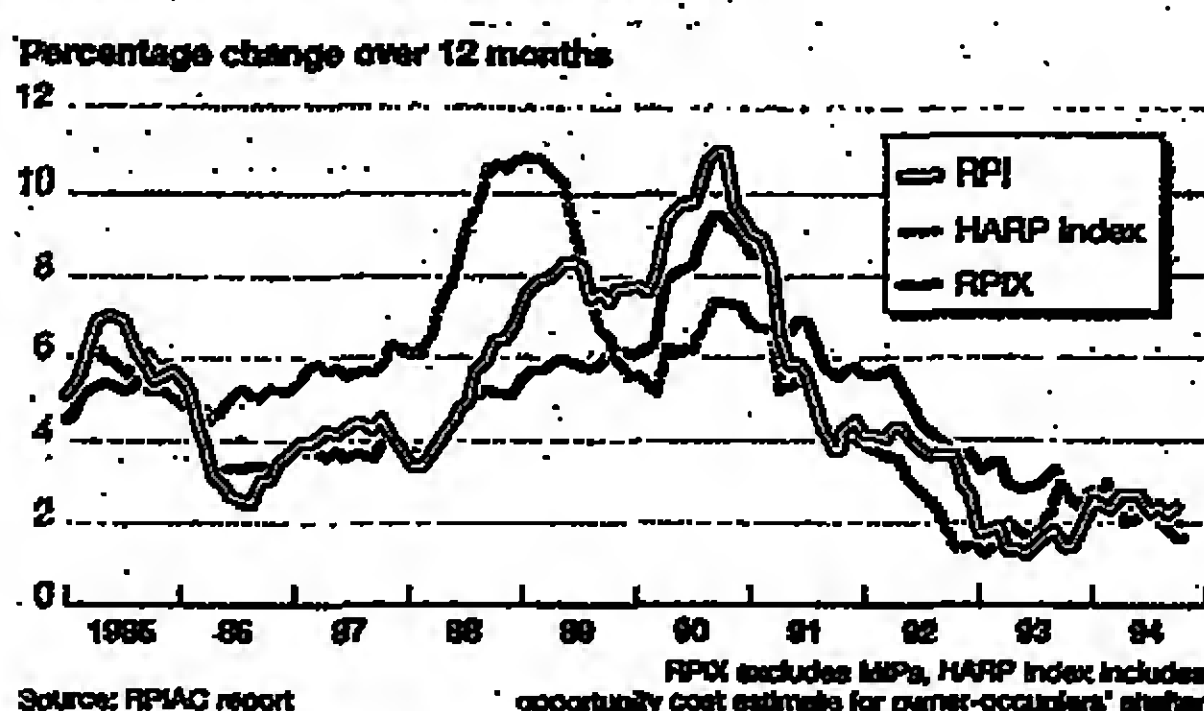
Last Thursday, another official report* was published, that of the Retail Prices Index Advisory Committee (on which I sit) on the treatment of owner-occupier housing costs. Because of the government's short-sighted policy of restricting copies of such documents, most journalists have seen only the press release. This covered merely the majority report which favoured continuing to measure homeowners' costs in the RPI by mortgage interest payments, but with a slight modification to include an element of home depreciation which makes hardly any difference.

The origins of the report, over which the committee toiled for 2½ years, was Whitehall's concern that using mortgage interest payments to measure home ownership costs had a perverse effect on public perceptions of inflation, the conduct of economic policy and the success of that policy.

The mechanism by which we shoot ourselves in the foot is straightforward. When governments worry about inflation, they sanction interest rate increases which feed back into the RPI. The result is worsening inflationary expectations, reduced confidence and attempts at wage and price push by unions and employers. This leads to still greater inflationary worries, still more interest rate increases and still worse inflationary expectations. The vicious circle can be, and has been, broken by sufficiently determined policy, but at an unnecessarily high cost in lost output and employment.

The committee majority believed that the job of the RPI was not merely to measure inflation but to provide an automatic adjustment for incomes, for instance in pay and benefits. In fact, the idea that everyone can contract out of the effects of a credit squeeze is sheer illusion, which simply postpones adjustments and makes their timing perverse.

The RPI and related indices



As the committee sat, Whitehall seemed to get cold feet about reforming the RPI. Once it became clear that there was no one clear alternative measure of inflation, only a battery of indicators, some officials took flight lest negotiators should always go for the highest variant. But the need for such a battery is just a fact of life. The phoney inflation peak of nearly 9 per cent in 1990, when the economy was already entering recession and which did so much damage, was due not only to mortgage interest rates, but also to poll tax effects and the impact of a temporary oil price explosion before the Gulf war.

I am, however, inured to governments losing interest in their own original standpoint and I persevered with a minority report.

The root of the problem is that the previous method of estimating homeowners' costs by means of the equivalent rent for similar accommodation has not been available since the collapse of the market in private letting. There is no one perfect alternative and my own proposals are designed to entrench and build on what has already been achieved in interpreting the RPI.

To start with, the underlying rate, or RPIX, should now be given equal prominence to the headline RPI in official pronouncements. As a consequence, the headline RPI should cease to be the sole legal definition of the index. This is, in any case, the way the world is going. Price indices being developed

by the European Commission are certain to exclude home ownership costs as being too difficult to measure and compare between EU members. While the committee was going round in circles, the Bank of England had developed further indices to help measure inflation. These include RPIY, which excludes some indirect taxes as well as mortgage interest payments. There is also the housing adjusted index, HARP, which attempts to treat the purchase of houses like that of any other consumer durable. My recommendation is that the Bank of England should update every month the indicators in its quarterly Inflation Report and indeed publish them independently. The Bank could do this straightforwardly. But the CSO (Central Statistics Office), too, should get round to publishing a wider list of indicators attached to the RPI press notice, including the new comprehensive Inflation Index on which it is working.

My final recommendation may be the most controversial. This is that the RPI Advisory Committee is an anachronism which should be placed into honourable retirement. Apart from it being a corporatist survival, there is the basic fact that a price index cannot be devised by a varying selection from a group of 21 people sitting round a table every few weeks. The director of the CSO should have the same responsibility for the RPI that he has for other statistical series. *CM 2717, 510.65

Mr Des Wilson, veteran campaigner for worthy causes, will this morning brave the ire of environmentalists by presenting the case for a fifth terminal at London's Heathrow airport.

Mr Wilson, who earlier this year became public affairs director of BAA, the airports group that owns Heathrow, will be backing up Sir John Egan, BAA's chief executive, and Sir Richard Rogers, the architect of the proposed 1900m terminal. They will unveil at a press conference the detailed submission they intend to make to what is expected to be one of the biggest public inquiries in the south-east of England.

The Department of the Environment last week has already received 5,000 letters about the proposed terminal, 95 per cent of which are hostile. As many as 3,000 of the objectors intend to address the inquiry when it starts next May.

The Airports Policy Consortium, representing 30 south of England local authorities of all political persuasions, will argue that the terminal should be built. The objectors argue that Heathrow, which already handles 51m passengers a year, cannot grow any further without inflicting serious damage on the communities that live around it. The fifth terminal would increase the airport's capacity to 80m.

Mr Dermot Cox, a committee member of the Heathrow Association for the Control of Airport Noise, a pressure group, says: "Terminal Five sounds like just another terminal. It isn't a whole new airport."

Given the strength of feeling against the proposed terminal, BAA's recruitment of the New Zealand-born Mr Wilson is a significant coup. The former campaign director of the UK Liberal Democrats founded Shelter, which champions the homeless, led the Campaign for Lead-Free Air, chaired the UK branch of the Friends of the Earth and is the author of books such as *Pressure, the A to Z of Campaigning in Britain*.

He says he is entirely comfortable in his new role. "Very few major projects involve as little environmental impact as this one," he says.

The terminal will be built on land mostly occupied by a sludge works between Heathrow's two main runways. Access to the terminal will be via a new station connected to the London Underground network, the proposed Heathrow Express rail link and a spur road from the M25 motorway.

Swelling hubbub over Heathrow

Michael Skapinker analyses the debate over plans for a fifth terminal at the UK airport

The M25 will not have to be widened to accommodate the additional traffic, BAA says. With new rail links, it adds, 45 per cent of travellers to and from Heathrow will use public transport by 2016, compared with 36 per cent today.

BAA insists that there will be no increase in night flights if the new terminal is built. Nor will the group need to build a third runway to handle the increased air traffic. With a rise in the average number of passengers per aircraft, BAA says Heathrow's two existing runways can handle the increase in flights expected in future years.

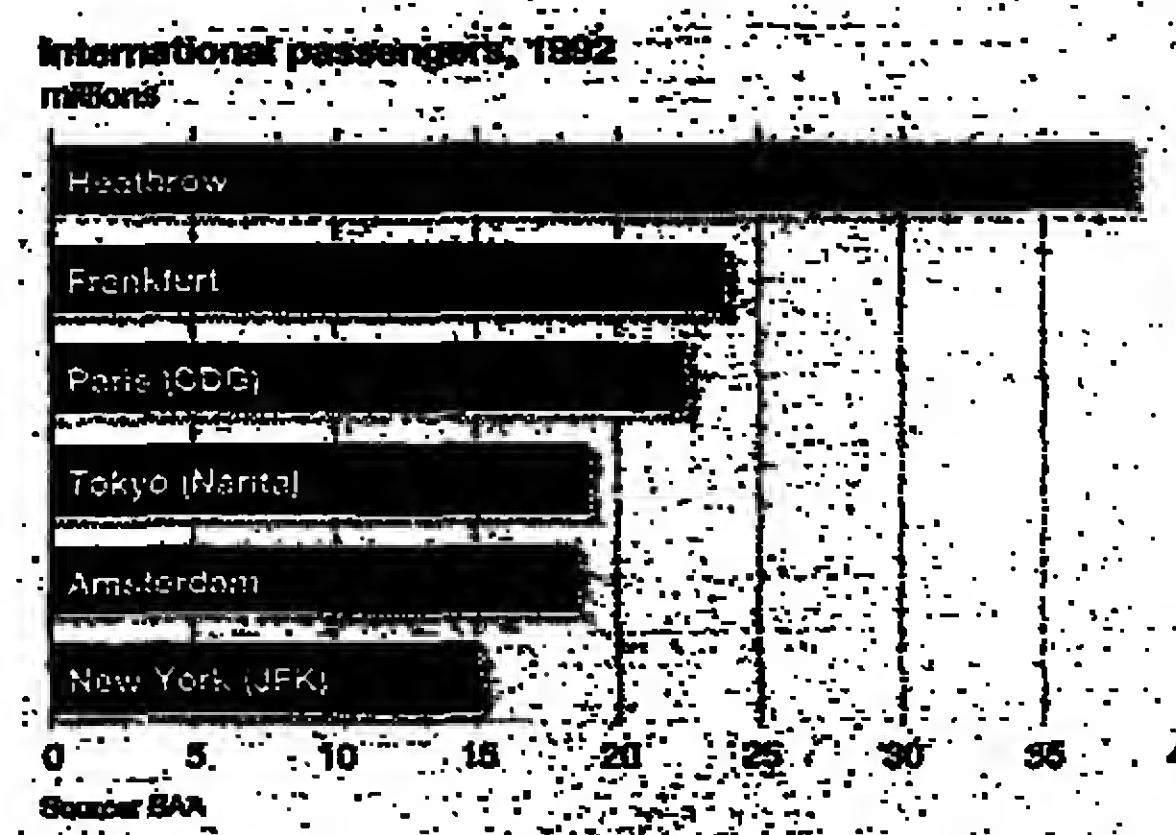
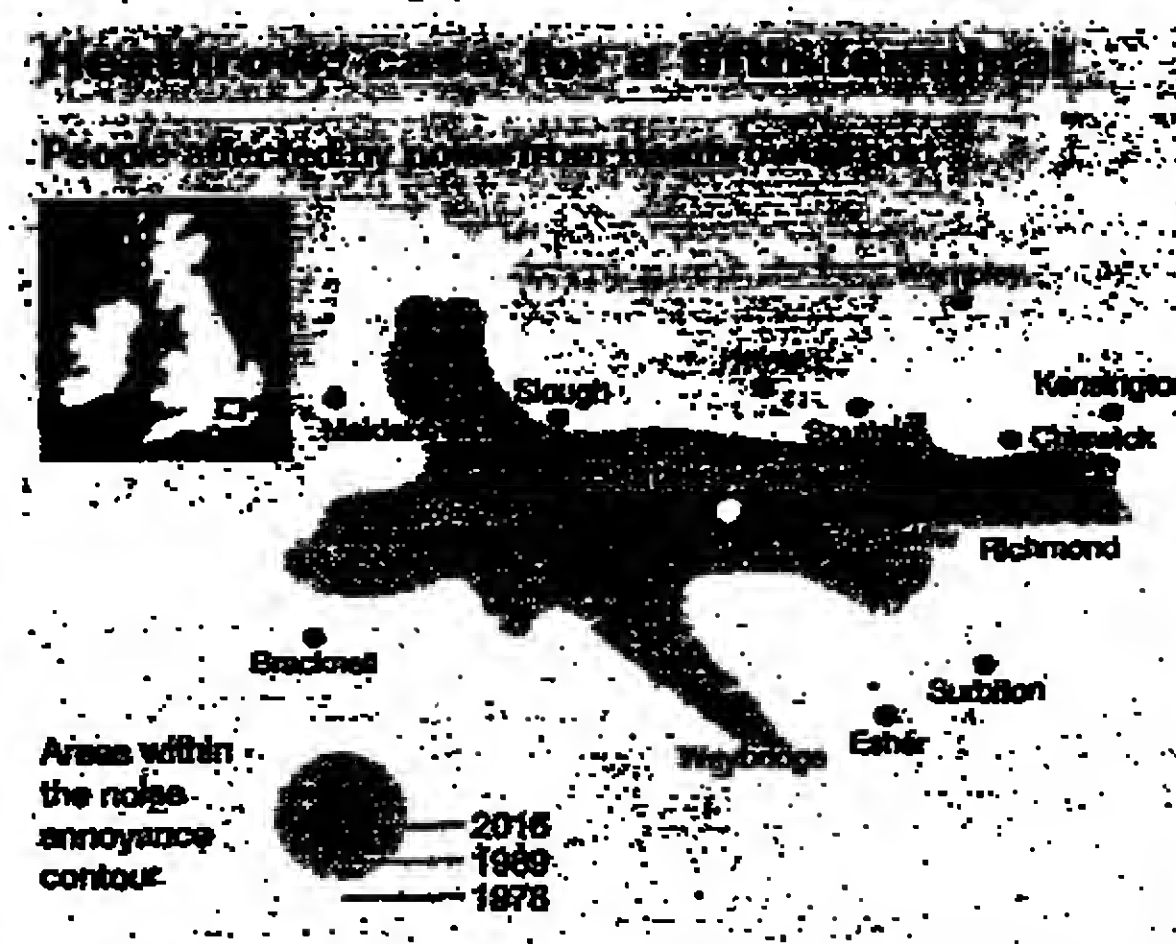
The company says it needs the terminal to maintain Heathrow's position as the world's leading international airport, which in turn underpins London's position as one of the most important financial and business centres.

BAA expects passenger demand at Heathrow to grow by 3-4 per cent a year for the foreseeable future. If Heathrow fails to accommodate this growing demand, ambitious airports such as Frankfurt, Charles de Gaulle in Paris and Amsterdam's Schiphol will do so instead.

The Airports Policy Consortium rejects these arguments. Miss Frances Rudd, its planning officer, says: "With or without Terminal Five, Heathrow is still the world's leading international airport. I remain unconvinced that if Heathrow doesn't get Terminal Five, London will decline."

Instead of trying to accommodate ever-increasing demand on the congested west side of London, the consortium believes BAA should be promoting development to the east of the capital, which, it argues, is in line with government policy for regenerating the East Thames corridor.

The consortium says that, instead of building Terminal Five, BAA should promote the development of Stansted airport in Essex, which has good rail links to the City of London. In contrast to the bustle at Heathrow, Stansted appears



eerily empty, with only 3.2m passengers a year.

For the anti-noise campaign, Mr Cox, a market researcher who has lived near Heathrow since he was a child, says that he does not see how the airport can operate the fifth terminal without a third runway.

The existing runways are already heavily utilised. According to Mr Cox, BAA's argument that it can handle the additional traffic using just two runways appears to be based on a firm conviction that larger aircraft will be built over the next few years. "Their case is that we are going to have these super jumbos taking 600 or 800 people. But they don't exist. People are talking about it, but it is still very hazy," he says.

Mr Cox says that, even with the current level of aircraft traffic, life is difficult for those who live near Heathrow. He concedes that people who choose to live near an international airport must expect a certain amount of noise, but he argues that they should not have to suffer being woken at 4am by overhead flights.

Mr Cox says walks in Kew Gardens, a favourite haunt of his, are ruined by the sound of aircraft. "Kew Gardens advertises itself as a haven of peace and tranquillity. If I wasn't a friend of Kew Gardens, I would refer them to the Advertising Standards Authority," he says.

Mr Wilson counters that making greater use of Stansted or London's Gatwick airport would not reduce the need for Terminal Five. Even if Stansted and Gatwick were used to

full capacity, there would still be excess demand from airlines wanting to fly into London.

In any event, Mr Wilson argues, 30 per cent of Heathrow's passengers use the airport to change to other aircraft. If these transfer passengers were denied the use of Heathrow, many would not use Stansted. They would change flights in Paris, Frankfurt or Amsterdam, he says.

However hard BAA markets Stansted or Gatwick, international air passengers insist on using Heathrow. "Heathrow has a choice of airlines, flights and destinations unmatched anywhere in the world. We are simply reflecting what the industry wants," he says.

BAA also rejects the view that new, large aircraft are essential if Terminal Five is to operate without a third runway. Aircraft using Heathrow currently carry an average of 126 passengers each and use the two runways to 82 per cent of their capacity. If by 2016, with Terminal Five built, the two runways are used to 92 per cent of their capacity, aircraft will have to carry 177 passengers per aircraft. A Boeing 747-400 already carries 400.

BAA says that the number of Heathrow neighbourhoods affected by noise has been falling, because newer aircraft are quieter. In 1978, 1.5m people were affected by high levels of noise. Today, the figure is 500,000. By 2016, the figure will fall to 225,000 if Terminal Five is not built, and 293,000 if it is.

Today Mr Wilson will present an opinion poll showing that over half the residents near Heathrow support Terminal Five and that they are more worried by traffic, litter and crime than by aircraft noise. He says: "We will show that 73 per cent of people within a 5-mile radius of Heathrow haven't been woken once by aircraft noise in the past year."

The anti-Terminal Five campaigners will no doubt point out that BAA's figures mean that more than one in four people living near Heathrow have been woken by low-flying aircraft over the past year.

Mr Wilson accepts that BAA's opponents have genuine concerns. In the end, however, the government will have to make a choice based on the interests of the UK and London, he says. "It's a test of whether this country is capable of taking long-term decisions or whether short-term responses to a minority will prevail."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Favourable tax regime

From Mr Torlach Denihan.

Sir, Your article, "Boost for Dublin's tax haven" (December 8), reporting the decision of the European Commission to extend the marketing deadline for Dublin's International Financial Services Centre, refers to the centre as a "tax haven".

Such pejorative language is totally inappropriate. The rate of corporation tax on the profits of companies in the International Financial Services Centre is 10 per cent exactly, the same rate applicable to the profits of manufacturing companies in Ireland.

Some 220,000 people are employed in manufacturing industry in Ireland, of whom some 50,000 are employees of foreign-owned industrial enterprises. These companies are attracted by a favourable corporation tax regime and the European Union's youngest and best educated workforce. The same features attract companies to the centre.

Your correspondent should be aware that the European Commission is not in the business of approving tax havens and that its decision vindicates how the centre has evolved over the past seven years.

Torlach Denihan, director, Financial Services Industry Association, 94-96 Lower Baggot Street, Dublin 2, Ireland

The right person to lead WTO

From Mr Harry L. Freeman.

Sir, Your leader concerning choice of a leader for the World Trade Organisation (December 14) is right on the mark. As important as the agreements reached in the Uruguay Round are to the future of world trade, so is the choice of the first leader of the WTO and the launch of this new entity. For those of us who worked on the round for years, it would be frustrating to see all of the efforts made to reach a broad and strong agreement frustrated by a poor leadership choice and/or an unproductive confrontation over the nature of the WTO at its outset.

You make a very critical point in how governments

should make their choices as to the WTO head - namely, that each candidate should be judged (among other important criteria) on his ability to draw support beyond his natural constituency. Thus, your point that Mr Renato Ruggiero - Italian former trade minister and the EU's official candidate - should be judged, among other criteria, on his support from such areas as Latin America and Asia. His support now is largely from the EU and countries closely tied to it. Similarly, it would follow that Mr Carlos Salinas, former Mexican president, must draw significant support from countries outside the western hemisphere; and that Mr Kim

Chul-su, South Korea trade minister, should be more than an Asian candidate.

Your approach is meritorious and should help select a candidate based on ability. My own favourite, Mr Salinas, I would concede, must draw significant support from such areas as Africa, the Asian sub-continent and Australasia, rather than being solely a western hemisphere candidate. I believe he can do so as, at least in my judgment, the best candidate for this position at this time.

Harry L. Freeman, president, The Freeman Company, 4708 Dorset Avenue, Chevy Chase, Maryland 20815, US

Motorway toll rationale

From Mr Andrew J. Walker.

Sir, I agree that motorway tolls present a huge political problem for a government (Personal View, December 14), but comparisons with motorway tolls in France are invalid. Distances between French cities are such that switching to non-toll roads could lengthen journey times by many hours, if not days. In contrast, the use of motorways in principal French conurbations is free of tolls: on that same model, use of the M25 would remain free.

The French do have a viable alternative to motorways: the TGV, which is ideally suited to

the long inter-city distances in France.

If the UK government were serious about the environment, it would use the money raised in motorway tolls, fuel taxes, etc., to invest directly in quiet, non-car transport infrastructure designed to meet Britain's travel needs of the 21st century. Any other rationale for introducing motorway tolls would simply be another tax on people who need to get from A to B.

Andrew J. Walker, MSc de Massier, 35000 Vienna, France

Perverse

From Ms Fiona Brown.

Sir, Would you buy an advertising campaign for your company from an advertising company which did not understand the value of a company name ("Saatchi chairman forced to quit by US shareholders", December 17)? In 20 years Saatchi has built an enviable worldwide profile attractive to both clients and investors. Anonymity would seem a rather perverse corporate move, but very attractive to the competition.

Fiona Brown, Chato, International House, 58 Compton Road, London N1

Unwise to lower ceiling of target range for UK prices

From Dr Peter Westaway.

Sir, Your editorial, "A new target for inflation" (December 13), suggested a number of modifications to the framework for monetary policy relating in particular to the inflation target. You rightly focus on the question of how to acquire the credibility for this target which, judging by prevailing interest rate expectations and most inflation forecasts, has not yet been fully achieved.

Since the RPIX inflation rate is currently higher than that of the RPI, I cannot believe that a move to a target which is now easier to hit is likely to enhance credibility, although eventually a move to the RPI definition may be sensible.

Given that many forecasts, including our own at the National Institute, would have inflation rising above 3 per cent in the next two years, it would seem unwise to advocate a lowering of the ceiling of the target range to 3 per cent.

Even if the central forecast for inflation were to remain below this level, we live in an uncertain world where discretion needs to be the better part of valour. The tighter the inflation target, the more likely it is that some unexpected occurrence may cause the target range to be violated. Or even for unacceptably high output costs to be paid to keep the target range intact. In such circumstances, the actual Treasury-Bank strategy of "talking

down" inflation into the lower half of the range while maintaining the original range of 1-4 per cent may actually be rather prudent.

Importantly, as you emphasise, the question of any future administration's commitment to an inflation target has a crucial bearing on the long-term credibility of anti-inflationary policy and can even influence its current effectiveness. There now seems to be cross-party agreement on the role of monetary policy in achieving low inflation. One possible area of confusion may arise, however, with the Labour party's stated intention to a target for growth. If this means that monetary policy will be actively used to raise gross

domestic product above its "natural level", then inflation can indeed be expected to be higher. Alternatively, if the growth target means that supply-side policies will be adopted in an attempt to increase the long-run growth rate endogenously, to use a much maligned but ultimately rather important expression, then the effects on inflation are much less certain and may even be beneficial.

I echo your call for clarity on all sides. Peter Westaway, senior research fellow, National Institute of Economic and Social Research, 2 Dean Trench Street, Smith Square, London SW1P 3HE

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Monday December 19 1994

Evading US fiscal reality

US politicians have spent the weeks since the congressional elections "learning the lessons" of the Republicans' victory. Most now believe they must promise the voters a dubious fiscal cocktail in the years ahead. The US is not the only country in which economic realities seem increasingly at odds with political ones. Few, however, can boast such a powerful consensus in favour of ignoring the first.

The post-November strategy which Mr Clinton finally unveiled last Thursday centres around middle-class tax cuts and departmental downsizing. He pledged to "the straight with the American people" about the real consequences of these budgetary decisions. On paper, at least, the plan does add up rather better than many of the competing proposals currently on offer on Capitol Hill. But none paints an honest picture of the economic realities facing the US in the short and medium term.

Mr Clinton offered tax cuts for "middle-income" households worth about \$60bn over five years. He observed the post-November rules of the game by promising to offset these with cuts in discretionary government spending, rather than tampering with federal benefits to individuals ("entitlements") or raising other tax revenues. As many remarked, the speech echoed many a latter-day Republican theme as well as some of his 1992 election campaign. Characteristically, he aimed to please everyone and so, perhaps, pleased relatively few. Certainly there was little to prompt either Republicans or Democrats to forsake their more ambitious tax-cutting gambits when passing next year's budget.

Reform package

It is to Mr Clinton's credit that he merely echoed these proposals, many of which were on show last week, rather than trying to outbid them. But a more courageous president would have picked another model altogether for his efforts, namely the ambitious fiscal reform package put forward a few days earlier by Senators Robert Kerrey and John Danforth.

The Senators' plans are unique in admitting that neither tax cuts nor an unchanged system of entitlements is consistent with long-term US fiscal stability. The

federal budget deficit will begin to rise again in 1995. Interest payments and social commitments, on the basis of current commitments, consume nearly three-quarters of all federal revenues by 2003, and 100 per cent 10 years later. By 2030, total federal expenditures are projected to exceed 37 per cent of GDP, compared with just 22 per cent today. If policies remain unchanged, by then this year's modest \$22bn surplus of Social Security tax revenues over outlays would have turned into an annual deficit of over \$450bn. It should go without saying that this will not happen. The only question is when, and how, it will be stopped.

Small steps

Messrs Kerrey and Danforth proposed a few measures to stop the rot, such as gradually raising the retirement age from 65 to 70 and means-testing some benefits, fewer than a fifth of which go to poor households. Mr Clinton was not alone in finding these and other measures unthinkable. None of the other members of the commission on entitlement reform, chaired by Mr Kerrey, could stomach them either. It broke up agreeing on only the need for fundamental reform, and some minor, though useful, changes in the procedure for assessing the budget.

Mr Clinton's 1993 deficit reduction package included some very small steps towards lowering benefits for wealthy households. With the recovery entering a buoyant fifth year of recovery, the short-term case for further retrenchment is now even stronger. Meanwhile, the Republicans claim that their corporate and individual tax cuts would be accompanied by enough spending cuts to be consistent with further deficit reduction. Yet they hope to reverse even Mr Clinton's modest 1993 changes to entitlements.

The president was right on Thursday to admit, implicitly at least, that the budget would never be balanced without benefit changes at least as ambitious as the Kerrey-Danforth programme. He may also be right in thinking that endorsing the latter would be political suicide in the current US climate. In the long run, however, voters are unlikely to reward either Mr Clinton or Congress for suggesting that this type of reform could painlessly be deferred.

Tougher rules for pensions

How much more secure will members of the UK's occupational pension schemes be if the Pensions Bill, published last Friday, is enacted as proposed? That is the test, given the bill's origins in the report of the Goode Committee, which was set up in the immediate aftermath of the Maxwell pension scheme outrage.

Many of the Goode recommendations have been adopted. For instance, active scheme members will be entitled to appoint a third of the trustees; an Occupational Pensions Regulatory Authority, albeit of a rather passive kind, will be set up; and a new Pensions Compensation Board will be able to levy other schemes and compensate victims when a scheme fails to meet its liabilities due to misappropriation of assets and the bankruptcy of the employer.

But the minimum solvency requirement that formed an important part of the Goode proposals has been significantly watered down. Under pressure from companies, the provision has been altered to permit a greater emphasis on the assumed higher returns on equities rather than government bonds, and more time will be allowed for schemes to correct solvency crises.

Moreover there is no sign yet that the government will issue the special indexed securities which the Goode Committee requested should be made available to schemes winding up so that they could economically secure their future pensions liabilities.

Highlighted

The problems were highlighted by the receivership of shipbuilder Swan Hunter. Although this \$80m scheme was regarded as solvent by its actuaries, and was sufficiently well-funded to have complied with the proposed minimum solvency requirement, the trustees announced in September that not all the pension benefits could be met, with some being reduced by as much as 40 per cent.

Essentially this kind of problem arises because smaller schemes cannot be run economically as closed funds when the employer goes bankrupt, or for other reasons decides not to continue the scheme. The assumed high long-term investment returns are replaced by much lower interest

rates when liabilities are transferred to life assurance companies. Some in the actuarial profession are worried that a so-called minimum solvency test will prove seriously misleading, and will imply a degree of security for future pension rights that in reality does not exist. It is also worth pointing out that Mirror Group pensioners would not have benefited from a compensation scheme of the type planned, because their employer continued to trade.

Serious deficiency

Other Maxwell companies did fail, of course, and their pensioners would have been able to claim. Fraud is not always as clear-cut as in the Maxwell example, however. Many cases of serious deficiency arise because of imprudent investment or a desire by the trustees to help the sponsoring company through a crisis by deferring contributions or even by buying assets such as property. The presence of member trustees with jobs at stake will not necessarily reduce these risks.

The question is whether the other measures, such as the imposition of a duty on auditors and actuaries to inform the regulator about apparent irregularities, will make an important difference. Certainly there are powerful threats of fines or imprisonment when trustees breach rules.

In many cases these provisions seem likely to be effective. No one can rule out the possibility of rogues misappropriating pension scheme assets in future, especially among smaller companies, but at least a safety net will exist for these serious abuses.

The bigger problem may well be whether the reasonable expectations of scheme members will be met when the sponsoring companies get into trouble. To insist on complete security would be to impose much higher funding costs on all companies with final salary-linked schemes, for the sake of the small proportion of future problem cases. But should not scheme members be made aware that they are carrying a residual risk?

The Pensions Bill represents a clear improvement over what has passed before. But there is a danger that it will generate an expectations gap that will haunt politicians in the future.

One of the world's longest and tensest diplomatic poker games is nearing a climax. As negotiators on China's application to rejoin the General Agreement on Tariffs and Trade prepare to leave Geneva for the Christmas holidays at the end of this week, the time has come for bluffs to be called.

How the game is played out in the next few days may determine whether a formula can be found for China's orderly integration into the multilateral trade system - or whether Beijing carries out its repeated threats to walk away from the bargaining table and pursue go-it-alone economic policies.

Either way, the stakes are momentous. With a quarter of the world's population and one of its fastest growing economies, China is already a magnet for foreign exporters and investors. On recent trends, it may overtake the US to become the world's biggest economic powerhouse before the middle of the next century.

China's erratic pace of reform, often chaotic business conditions and continued adherence to many of the practices of a command economy will not be easy to align with multilateral trade rules and disciplines. The task threatens to impose serious strains on the Gatt and its successor, the World Trade Organisation, which will be established at the start of next year.

But it is widely accepted that keeping China out of the WTO would be even worse, and could turn the country into an international rogue elephant. Paraphrasing former US President Lyndon Johnson, one trade negotiator says: "The choice is between having China inside the tent spitting out, or outside spitting in."

Talks on the resumption of China's Gatt membership, which it unilaterally suspended after the communist revolution in 1949, have been under way sporadically for almost eight years. But Beijing has recently raised the stakes to new levels by setting a deadline for their completion.

Mr Long Yong-tu, China's chief negotiator, has told Gatt members that unless a "substantive" agreement is reached by the end of the year, his government will offer no further concessions and will not seek to restart talks. Indeed, he is reported to have said that Beijing might even start closing its market to western exporters.

"The heightened sense of urgency has encouraged Mr Pierre-Louis Girard, chairman of the Gatt working party dealing with China's application, to order its members to pull out all the stops in an effort to have a formal accession protocol ready by the end of the year.

However, by all accounts the

High-risk strategy in global game

Talks on China's application to rejoin Gatt are nearing a climax, write Guy de Jonquières and Frances Williams

talks are still proceeding at a snail's pace, and most negotiators see little chance of a last-minute breakthrough.

"I've seen miracles happen in Geneva before," says one. "But I don't expect one this time. There is just so much work left to do."

If that forecast proves correct, Beijing will confront a dilemma. Though it has not totally ruled out an extension of talks into next year, saying it would be ready to discuss "technical" issues, it will be hard put to dress up results so far as the "substantive" deal in which it has invested so much political prestige.

What China would do then is anybody's guess. Some observers in Geneva fear it might succumb to pressure from hardliners to abandon the membership talks, on the grounds that foreign exporters and investors are so desperate to participate in the country's economy that it has nothing to lose.

Mr Booth Gardner, the US ambassador to Gatt, is more sanguine. "I don't think China's threat to pull out is a bluff," he says. "But as long as their negotiators can return to Beijing saying some progress is being made, they will stay in the game."

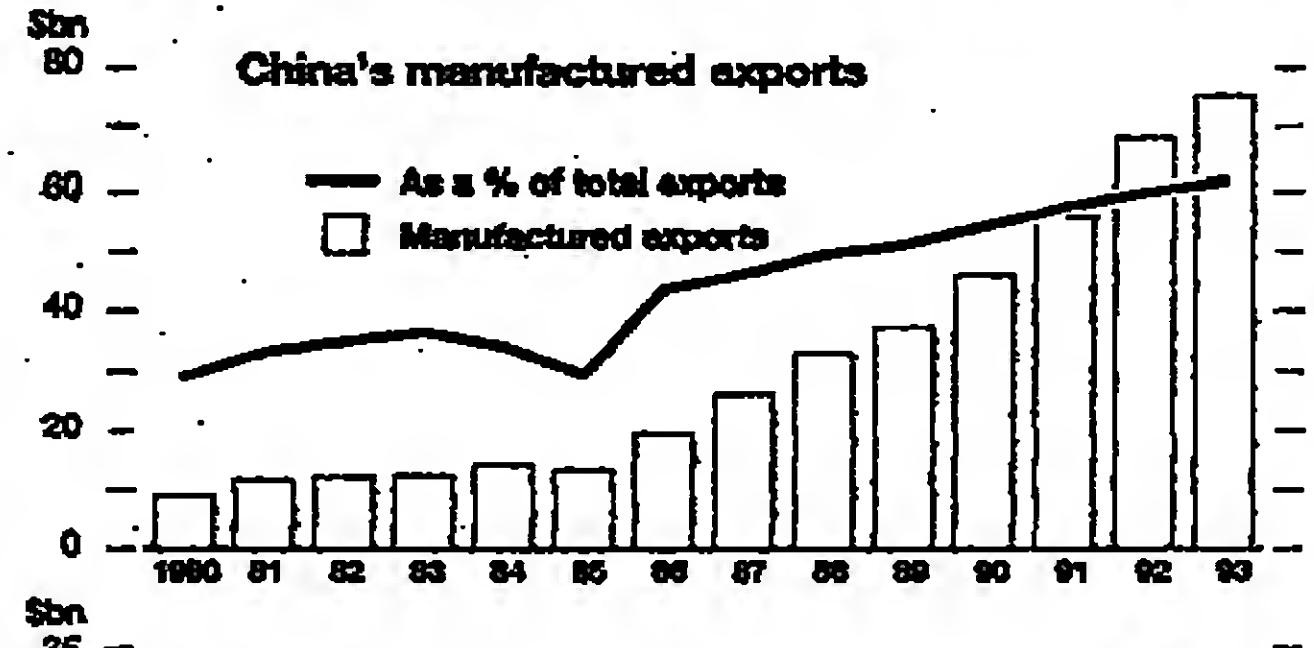
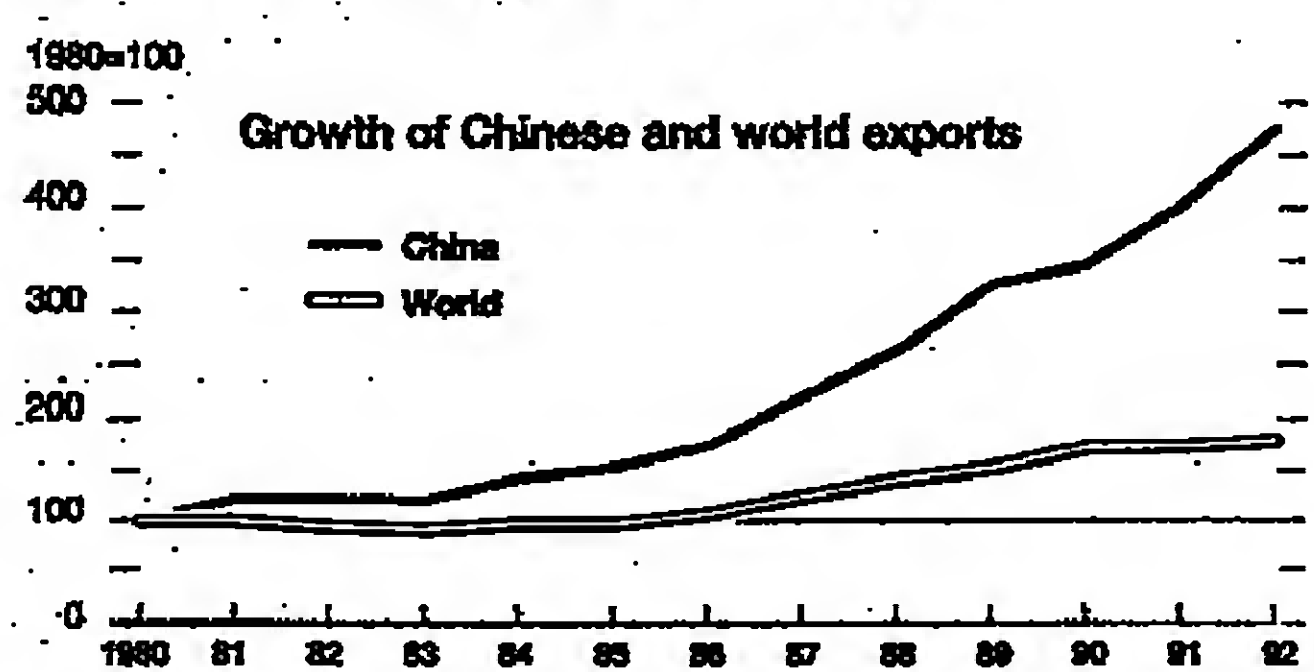
Mr Jeffrey Garten, US under-secretary of commerce for international trade, believes Beijing's economic self-interest will prevail over political pique. China's failure to enter the WTO, he argues, could damage international confidence in its economy and scare away much-needed foreign investment. "I am optimistic that in the end our differences will be worked out," he says.

But even if breakdown is averted, stubborn obstacles remain. It is also not clear that the protagonists in the talks will enjoy any increased room for manoeuvre.

China's negotiating position is widely thought to be constrained by a looming leadership struggle, which has caused even economic reformers to take a hard line. Some western observers say China's negotiators in Geneva recognise they must offer more concessions, but they have failed to win the authority to do so.

Beijing, in turn, blames the slow progress on unreasonable demands by Washington. The US, which has

Trade with China: much at stake



Source: US Dept of Commerce, GATT
*Jan-Sept provisional only

taken the lead in the negotiations, has said it wants China to join the WTO, but has made clear its determination to strike a hard bargain.

The Clinton administration is under strong domestic pressure to stick to its guns. After a humiliating retreat this year from its threat to deprive China's exports of Most Favoured Nation status over human rights, any further signs of weakness would provide powerful political ammunition to the new Republican-controlled Congress.

US business leaders argue strongly that the WTO accession

of governments have started to find fault with Beijing.

One reason is China's demand that it join the WTO on terms more generous than those enjoyed by developing countries in the Gatt. As well as angering many developing countries, there are fears that meeting this demand could set an undesirable precedent for the membership negotiations under way with Russia and other former communist states.

Some industrialised countries would be ready to allow China to subscribe initially only to a set of core WTO obligations, and adopt the rest according to an agreed timetable, provided Beijing made reasonable bilateral offers on market access for their goods and services.

However, western negotiators say Beijing's offers to date have been niggardly, lacking in clarity and hedged with restrictions. For instance, it is said still to be balking at basic commitments on regulations governing imports and foreign exchange, and wants to limit foreign banking rights to about 20 cities.

So unyielding has Beijing's position been that some Gatt members are starting to wonder whether it really understands what is at stake in the negotiations. "We are like ships that pass in the night," says a western diplomat. A negotiator from a developing country puts the point more bluntly: "China seems to think it is dealing with the United Nations, where everything consists of grand political posturing. It has yet to recognise that Gatt is all about negotiating on detailed, specific and concrete issues."

On this view, Beijing needs to undergo a fundamental change in psychology. But even if the talks continue beyond the end of this month, it has little time left to do so. Many Gatt members say that, in the absence of any breakthroughs, it would be impractical to drag them out beyond next summer. However, they also admit privately that whatever progress is achieved, the final decision on China's admission to the WTO will come down to a political judgment. It will turn on an assessment of whether Beijing will live up to its commitments - or whether it will wreck havoc by blithely disregarding the rules.

That is a question to which nobody in Geneva pretends to know the answer. Even those who argue strongly that China's WTO admission is essential for global economic reasons admit that it is a high-risk strategy.

"The real nightmare," says one, "would be to have China inside the tent, spitting in."

Why Bill signed Newt's contract

Nothing better illustrates the shift in political power in Washington than Bill Clinton's address to the nation last week. Instead of wrestling the political initiative from Republicans, Clinton in effect admitted that he had erred and promised to mend his ways. The defining features of the first two years of his presidency were dropped. Deficit reduction became a dead letter, as did fond hopes of expanding the government's role in healthcare and workers training.

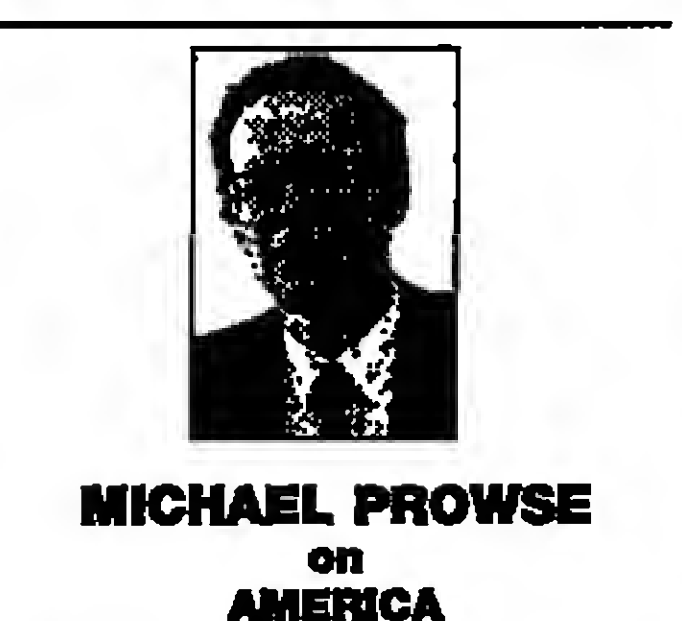
The new policy objectives are frankly Reaganesque: to reduce the burden of taxation and get government off people's backs. Clinton's "bill of rights" (an absurd misuse of language) consists of a raft of proposed tax breaks for "middle class" families (American parlance for anybody who is neither poor nor affluent) estimated to cost \$60bn over five years. It includes child tax credits, deductions for college and vocational education, and concessions on retirement saving. The White House swears it will be paid for by cutting the federal bureaucracy and freezing domestic spending, but it has yet to produce the details.

As tax policy, the Clinton proposal is little short of disastrous.

The increased deductions for children claimed by Republicans can perhaps be defended on the grounds that the tax system has become less generous toward children in recent decades. But the new element in the Clinton scheme - a tax break for post-secondary education - represents a damaging (and potentially expensive) retreat from fiscal neutrality. Instead of introducing extra fiscal concessions, the US needs to build on the achievements of the bipartisan 1993 tax act by broadening the base further and cutting marginal rates.

But close analysis of the Clinton plan is a waste of energy. The crucial point to remember is that Democrats no longer control the congressional budget machinery. Republicans will be as contemptuous of Clinton's fiscal proposals as Democrats were of the Reagan and Bush budgets in the 1980s.

Before Clinton spoke, senior Republicans were already calling for much larger tax cuts. Senator Phil Gramm of Texas, a likely presidential contender in 1996, wants to double the dependent exemption for children, a measure that would cost \$124bn over five years. There is thus no point worrying whether the Clinton proposals would increase the deficit; the fiscally-relevant

MICHAEL PROWSE
ON AMERICA

question is whether Republicans will cut spending sufficiently to offset their proposed tax cuts.

I am cautiously optimistic that they will, although I would not blame bond investors for remaining sceptical. To believe that tax cuts will mean higher deficits, just because they did in the 1980s, is to fail to grasp the changing nature of US politics. Tax cuts used to mean higher deficits largely because the Democrats, who controlled the House of Representatives, passionately opposed deep cuts in domestic spending. Reagan was thus forced to choose between no tax cuts or tax cuts plus large deficits.

The mindset that created that impasse largely disappeared in last month's political revolution. "Lib-

eral" Democrats were vanquished on November 8. The incoming conservatives relish the prospect of "downsizing" the federal government. If they shy away from spending cuts and allow the deficit to balloon, while simultaneously pushing for a constitutional amendment requiring a balanced budget, they will lose all credibility with voters.

The larger question is whether Clinton was wise to repackaging himself as a moderate conservative. I suspect he was. There are two possible explanations for the Democrats' defeat last month that might be dubbed "disgruntled voters" and "ideological shift". On the first view, voters (especially blue-collar whites) lashed out at the ruling Democrats primarily because they were feeling economically insecure. If congressional Republicans do not create genuine economic prosperity in the next two years, the argument runs, they too will feel the voters' wrath.

There is obviously something in this argument. The rapid productivity growth of the immediate post-war decades has not yet been re-established and real wages are consequently rising slowly for many groups. Yet it was absurd of Clinton to talk of Americans "hurting", as though the economy were

still mired in recession. More than 5m jobs have been created since he took office. The unemployment rate is down to 5.6 per cent. Gross private investment is up nearly 30 per cent. Vehicle and new home sales are up about 20 per cent and running close to the peak levels of the 1980s. People who feel economically insecure do not spend this readily.

The election results thus almost certainly reflect a deeper-seated ideological shift. "Times really are changing." A couple of generations after Franklin Roosevelt's "New Deal", Americans have finally lost confidence in the ability of government to solve problems.

Think of the hardening of attitudes on welfare: the majority view now is that strict time limits should be placed on benefits. Think of the healthcare debate: as soon as the Clinton plan was perceived as a government takeover of private provision, it was doomed. Think of the desire to curb politicians' powers: 22 states have passed legislation limiting the terms of elected representatives. Speaker-elect Newt Gingrich may be the *déjà vu* of Washington intellectuals. But they, not he, are the aberration. Hence Clinton's decision to risk an egregious flip-flop and dress himself in Republican clothing.

Down but not out

■ Standing for election to become a common councillor of the City of London recently, PR man Peter Jennings made the mistake of suggesting he might like to become Lord Mayor one day. The powers that be recoiled in horror at such a bald statement of ambition. But the obscure and oh-so-discreet system by which Lord Mayors have hitherto emerged is on the line, judging by current shenanigans within the Court of Aldermen.

Change was in the air earlier this year when Neil Young resigned. The court had reviewed the batting order for mayoral office, and Young heard his name would not "go forward". So Malcolm Matson, a businessman who has made his money in cable networks, was voted in by the Broad Street ward as his successor, but he failed to secure the approval of the aldermen themselves. Incensed at the blackballing - for which no reasons are given - Matson last Friday obtained an injunction stopping another election being called. As a result, a system that was last considered in detail in 1834 will be subject to judicial review. Matson says he has the financial resources to "see justice prevail".

Acoustic couples

■ Telephone users must be puzzled by the advertisements for Concert, British Telecom's new joint venture with MCI, boasting of the "seamless" global network that will be created. For the illustration clearly depicts an American telephone socket into which a BT phone plug would never fit. If only Britain did have compatible plugs, it would be a pace or two further down the information superhighway.

Wrong numbers

■ Observer is also a trifle worried about BT's in-house maths expertise. If the specimen on show

OBSERVER



"I've stopped contributing to the Tory party"

in the company's latest report to shareholders is anything to go by. A sharp-eyed reader points out that BT, boasting about its price competitiveness, seems to think that, if it keeps its prices stable while retail prices rise by 50 per cent, it has achieved a 50 per cent reduction in real terms for its customers. Would that life were so simple.

It is, however, the mistake that chairman Sir Iain Vallance makes when he boasts that, in the 10 years since the company was privatised,

retail prices rose 57 per cent in the UK, while a basket of BT's main services rose by "less than 9 per cent".

Thus "overall prices paid by customers have been virtually halved in the 10 years". The maths whizzes at BT seem to have subtracted 9 per cent from 57 per cent to arrive at 48 per cent.

Observer's suggestion is that the answer is actually (48/157)%, or a rather more modest 30.6 per cent decline, in real terms, in prices paid by the customer.

Ah well. Just a word of warning to Vallance when he is next working out his salary.

Low note

■ One of the latest additions to London's National Portrait Gallery - a Nigel Bonham sculpture of the English National Opera's former general director, Peter Jonas - doubtless looks very fine in the midst of its 20th century collection. But can that really have been its intended destination?

Bonham, whose previous subjects include the Princess of Wales and Lord Runcie, was commissioned by the ENO to do a bronze of Jonas when the latter departed in the summer of last year. All quite normal - Jonas had been *in situ* for eight years, and had been

widely regarded as a brilliant director. Before, that is, things tailed off towards the end.

The sculpture had been finished for months before it mysteriously popped up at the NPG just recently. Hope Jonas, now installed at the Bavarian State Opera, won't act *prima donna-ish* about this minor shift of key...

On the line

■ Inclining to the view that Internet bores deserve anything that comes their way, Observer was delighted with the following diverting tale from one hapless surfer in cyberspace.

Wishing to travel from London Waterloo to bijou Barnes, 20 minutes down the line in a south-westerly direction, he consulted Internet's railway timetable. The system quickly found the route. Travel from Waterloo on the 21.39 to Brussels on Eurostar. Return to Ostend, take a ferry to Ramsgate, a train to Waterloo and a train to Barnes, where you will arrive at 7.19 the following morning.

Comparative

■ What word can make shorter by adding two letters? Short.

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Monday December 19 1994

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MARKETS THIS WEEK



TONY JACKSON:
GLOBAL INVESTOR
Next month, Republicans will seek to amend the US constitution to make it illegal for the government to borrow money. What would a world without Treasury bonds actually look like? Page 18



MARTIN WOLF:
ECONOMIC EYE
Do you expect future generations to pay you a good pension over decades of secure retirement? If you do, you must also believe in Father Christmas. It would be better to start saving more instead. Page 18

BONDS:
For investors in the Nordic government bond markets, this has been a year of uncertainty. Meanwhile, November was a bad month for junk bonds, which lost more than 2 per cent of their value. Page 20

EQUITIES:
In New York, the market has zig-zagged as investors tried to guess whether the Federal Reserve would raise interest rates again in December. However, the news of merger talks between S. G. Warburg and Morgan Stanley and that Trafalgar House was considering a bid for Northern Electric, plus widespread expectations of other big bids in the market, dispelled much of the recent gloom in UK equities. Page 19

EMERGING MARKETS:
New share issues, privatisations, the arrival of foreign investment funds, and the reform of the bourse's organisation have transformed the Casablanca stock exchange in less than two years. Page 19

CURRENCIES:
Meetings of the Federal Open Market Committee tomorrow, and the Bundesbank council on Thursday, offer foreign exchanges their best possibility of excitement in the final days of 1994. Page 19

COMMODITIES:
Seasonal spirit among the world's gold traders could foster this week by an "arithmetic sword of Damocles" hanging over their market. Page 18

INTERNATIONAL COMPANIES:
The board of Credito Romagnolo (Rojo), the Bologna-based commercial bank, has accepted the £3,300bn (\$2bn) takeover from its new suitor, the consortium led by Cariplo, Italy's biggest savings bank. Page 17

UK COMPANIES:
With less than 24 hours before its banking facilities expire, Starhope, the property developer, was last night making last ditch efforts to stave off receivership. Page 16

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Rolls-Royce in BMW supply deal

By John Grimiths in London

Rolls-Royce Motor Cars, Vickers' luxury cars subsidiary, will this morning announce an agreement under which BMW of Germany will supply components and technology to help cut the cost to Rolls-Royce of producing its next generation of models.

Rolls-Royce last night declined to give details of what has been agreed after nearly a year of negotiations with BMW and Mercedes. However, it is understood that BMW will supply Rolls-Royce with

one of the most fundamental of its needs - a modern V12 engine to replace Rolls-Royce's V8 power unit.

Mercedes and BMW produce these units and have been anxious to supply them to Rolls-Royce because of the increased economies of scale. Neither Mercedes nor BMW produce more than 10,000 of these engines a year. Rolls-Royce's current annual car output is below 2,000 as a result of recession in some of its main markets; but production in the past has exceeded 3,000 a year. With BMW's help, Rolls-Royce plans to introduce new saloon cars and broaden

its model range, including the launch of a coupé codenamed Java.

There has been persistent media speculation of a "race" between Mercedes and BMW to become Rolls-Royce's long-term partner, with joint car development and a possible equity stake - or even outright purchase - touted as the intended outcome.

However Mr Peter Ward, Rolls-Royce chairman and chief executive, has said that the company is seeking only components and technical collaboration and that there is no reason why Rolls would not

seek similar deals with other potential suppliers, including Mercedes.

BMW, which bought the UK's Rover group at the beginning of this year, already has a relationship with Rolls-Royce because it supplies several electronic systems, and through Rover, body panels. Exploratory talks with Vickers two years ago about the possible purchase of Rolls-Royce were discontinued and Sir Colin Chandler, Vickers' chief executive, has recently stated that Rolls-Royce is not for sale in the foreseeable future.

Trafalgar may bid for power group today

By Michael Smith in London

Trafalgar House executives were meeting advisers last night amid expectations that the UK conglomerate will launch a bid this week, possibly today, for Northern Electric, the UK regional power company.

However with a final decision still to be taken late in the evening, it was still possible that the conglomerate would wait until the New Year to bid.

Any takeover attempt will be fiercely contested by Northern Electric and will probably face a forceful political lobby in the north-east of England where the company is based.

If the attempt goes ahead today, Trafalgar is expected to pitch its opening offer at a relatively low premium to the 885p share price at the close of business on Friday, when the company was valued at about £1.1bn (£1.8bn).

It is likely that Trafalgar will leave the publication of a formal offer document and the opening price until the new year.

Last week the government said it would not waive its "golden share" in each of the 12 regional electricity companies before the end of March. This effectively ruled out the completion of a deal before then.

Trafalgar is likely to offer Northern shareholders either cash or convertible preference shares. Hongkong Land, the Jardine Matheson arm which owns 26 per cent of Trafalgar, is likely to underwrite some of the issue.

Trafalgar last week reported a pre-tax profit of \$45.6m for 1993-94, against a loss of \$347m the previous year. Northern on Monday announced a 20.5 per cent rise in interim pre-tax profits to \$53.4m.

The 30 per cent dividend increase was one of the highest reported by regional electricity companies in the current results season.

Trafalgar is thought to be undecided about the fate of Northern's management should its takeover attempt succeed. Trafalgar's potential bid has intensified speculation that the structure of the electricity industry will be transformed in the next few years either by more takeovers or friendly mergers.

It is also possible that other companies will enter the fray for Northern. Hanson and Tomkins have been suggested as candidates.

John Gapper reports on the aftermath of collapsed merger with Morgan Stanley

Warburg attempts to rebuild character



Sir David Scholey (left) and Lord Cairns, chief executive, must restore Warburg's credibility

To suggest to Sir David Scholey, chairman of S.G. Warburg, that near the end of a 30-year career with the UK's leading investment bank, he has been taken for a ride by a US rival, is to be met with a silent stare. "No," he says, pausing for emphasis before repeating the word quietly, "No."

It is an understandably sensitive point for Sir David and Lord Cairns, the bank's chief executive. After the collapse of their proposed merger with Morgan Stanley last week, they picked up the Financial Times to read a brief dismissal by an executive of the US firm of their reason for merging.

Mr Stephen Waters, co-managing director of Morgan Stanley Europe, said that Mercury Asset Management, the fund management company 75 per cent owned by Warburg was "the reason for us to do this deal". There was no mention of creating a global investment bank at a single stroke.

It was not what Sir David wanted to read, amid criticism from outside Warburg - and privately from within - over the handling of the affair. By Friday, he and Lord Cairns faced suggestions that they had acted naively, and that Warburg no longer had credibility as an independent firm.

Sir David does not mind his words over Mr Waters' remarks, calling them "a subjective and selective alibi", and arguing that Mr Waters has "a hell of a containment job to do" in re-establishing the confidence of Morgan Stanley's 2,300 European staff.

The tension between Morgan Stanley's European employees and Warburg over how European operations would have been run in a merged firm, and which firm would bear the brunt of job cuts, spilled out at the end. Warburg faces its own containment job in the coming weeks.

The bluntest view, expressed by some rivals and even some of Warburg's employees, is that Lord Cairns should resign, because he is so closely identified

with the failed merger. Sir David insists that all the firm's directors were involved, and no such sacrifice is called for.

"We think we were entirely right to pursue the opportunity of a merger in a way that was constructive, imaginative and responsible. It was not born out of dire need"

Sir David Scholey, chairman of S.G. Warburg

with the failed merger. Sir David insists that all the firm's directors were involved, and no such sacrifice is called for.

"We think we were entirely right to pursue the opportunity of a merger in a way that was constructive, imaginative and responsible. It was not born out of dire need," he says. He talks of the inevitable risk of trying to do something "radical and bold".

The attempt broke down within days of the news leaking, and the two banks having to issue a statement that they were

in talks. Warburg has been blamed for the disclosure, but Sir David says that executives wanted to involve as many employees as possible, even at the risk of a leak.

"We took a very positive view that we were not going to do this the Salomon Brothers/Phillips Brothers way [when the US investment banks merged] - asking everyone to a country club on Saturday and locking them up until they accepted that it was going to happen on Sunday."

But the collapse leaves Warburg's management with several

challenges: the need to restore the confidence of staff, to convince outsiders that Warburg can continue as an independent institution, and to ensure that it can re-establish a harmonious relationship with MAM.

Sir David accepts that staff are bound to question what went wrong. "Could the management have handled it better? That is the question they are asking, and how we all respond and react to that in the hours and days and weeks ahead will be an important test for us." He insists that there is no need for Warburg to panic.

This week and next: Company news

BULL France outlines final stage of sale process

The French government will this week inform those companies that have made preliminary bids for a stake in Groupe Bull whether they can go on to examine the books of the state-controlled computer company to make a final offer by mid-February.

The industry ministry has said that it has been decided after all not to announce a shortlist by Christmas of companies "pre-selected" for the final stage of the operation. It indicated that some companies had wanted to keep their interest in Bull confidential, and the government would respect this.

By contrast, Quadral, a French electronics company, has said it made a bid, which is reported to be in the form of a joint offer with AT&T of the US, while NEC of Japan has shown interest in increasing its existing 4.34 per cent stake in Bull.

The industry ministry said that from now until mid-February it would be up to the companies concerned to reveal their interest in Bull if they wanted to. According to some sources, the Bull privatisation has drawn interest from several non-Japanese Asian groups such as Samsung of South Korea and Acer of Taiwan.

The government wants to reduce its 76 per cent stake in Bull, headed by chairman Jean-Marie Descarpentries (pictured above right), to a minority holding by next spring. But, given that Bull is still losing money - though on a reduced scale - the government is seeking privatisation through the formation of industrial partnerships rather than a public offer for sale.

It has said it is looking either for a majority shareholder or several important shareholders each taking at least 10 per cent of the capital. It has equally said that new partners could subscribe new capital, so diluting the state's stake, or they could buy shares off the state.



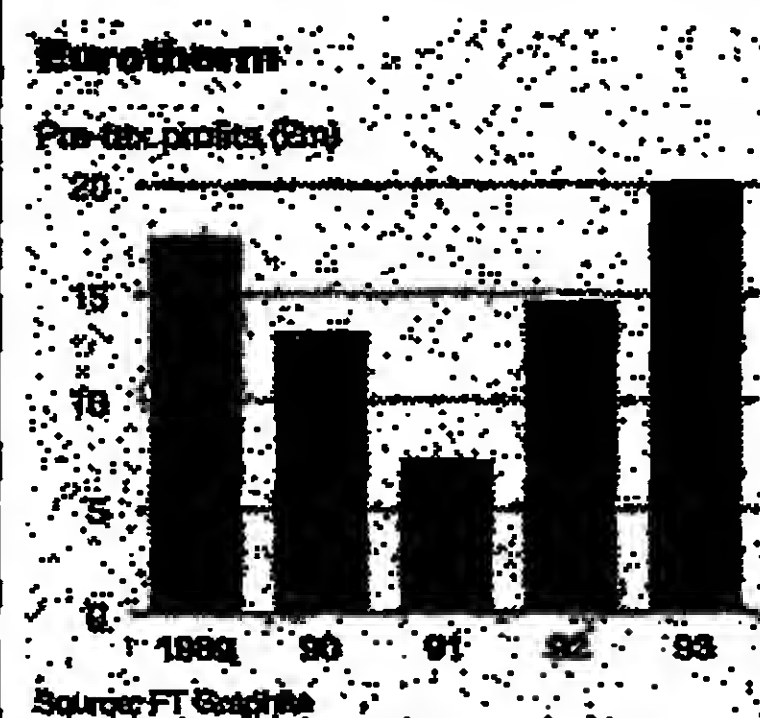
Descarpentries of Groupe Bull

OTHER COMPANIES High noon for IRI on New Year's Eve

IRI, the Italian state holding company, has until midnight on December 31 to complete the privatisation of Italy's state-owned steel industry, in line with a deal struck by EU industry ministers in December 1988. The most difficult sale is likely to be that of Iva Laminati Piani, the flat steel company, for which two rival consortia have tabled offers. IRI's directors decided last week to pursue their examination of the bids and are certain to have another meeting before Christmas to discuss the situation. If IRI fails to sell ILP, the European Commission could demand the repayment of nearly £5,000bn (\$8.25bn) of state subsidies which Iva was set to receive.

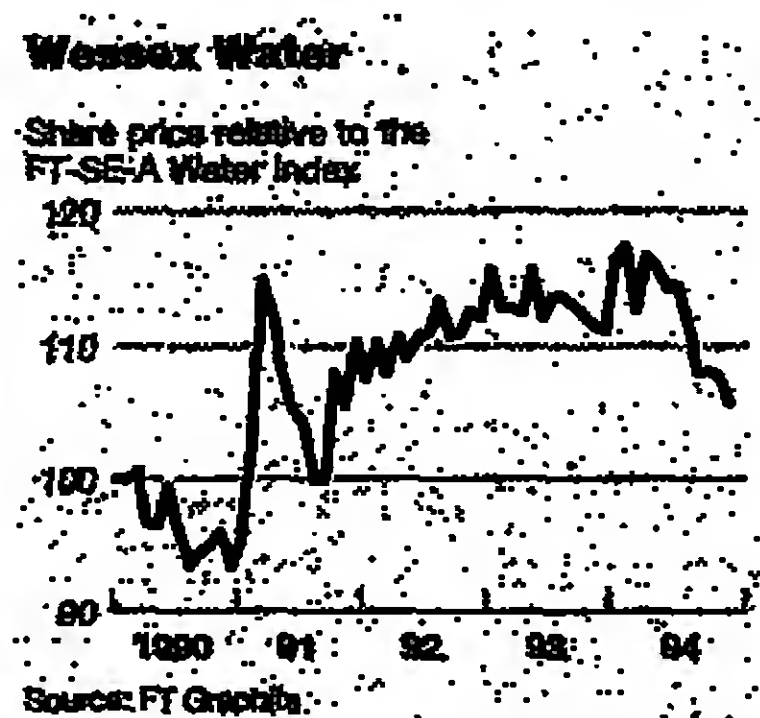
■ East Midlands Electricity: The utility will today bring the UK power results season to a close when it announces profits and dividends for the half-year to September 30. Last October the company announced it was to give back £186m (\$305m) to shareholders as a special dividend, or 85p per share. It chose this route rather than buying back shares. The interim dividend may therefore be less generous than other regional electricity companies have been able to provide. Nonetheless, at least 15 per cent is expected and profits are likely to be well ahead.

■ Eurotherm: The UK industrial



process control equipment supplier has performed well in recent years by cutting costs and improving productivity. Now investors are looking for evidence that the management under Mr Claes Hultman, chief executive, can boost sales. Confirmation that order book strength has been translated into higher sales could come when Eurotherm reports its results tomorrow for the 12 months to October 31. These should show pre-tax profits up from £20.1m to about £26m (\$42.64) and earnings of around 12p.

■ Wessex Water: One of the smallest of the 10 big privatised water and sewerage groups in England and Wales, should tomorrow report a profits rise of more than 10 per cent to £56m-£58m (\$86m-£88.4m) (previous, £53.4m) pre-tax, while the dividend is forecast to go up by a similar margin to 4.5p (4p). Investors will be waiting for a progress report on the company's ambitions.



waste management joint venture with the UK arm of WMX, the US-based world leader in waste.

■ NFC: Sir Christopher Bland, who officially takes up his new position today as chairman of the UK-based transport and logistics group, has a tough job on his hands. A former chairman of LWT, Sir Christopher has the task of restoring the City of London's confidence in the group. But before that he must solve the more pressing problem of finding a new chief executive.

The group has said an announcement will be made in the next few weeks. NFC's problems are not limited to personnel. Operating profits fell last year to £114.2m (£157m) from £116.7m and the share price dropped from 240p at the beginning of the year to 182p on Friday.

The group says it intends to accelerate its cost-cutting programmes.

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This year, we have again decided to make a donation to charity instead of sending Christmas cards

IMI BANK (LUX) S. A.

IMI Bank (Lux) S.A.

would therefore like to take this opportunity
to send seasons greetings to all its
clients, suppliers and colleagues
and to wish them
a very Happy Christmas
and a prosperous year in 1995.

8 Avenue de la Liberté L-1930 Luxembourg
Telephone: 40 45 751 Fax: 49 36 22

COMPANIES AND FINANCE

Receivership looms unless a deal can be agreed with its lenders

Last ditch efforts at Stanhope

By Simon London
Property Correspondent

With less than 24 hours to go before its banking facilities expire, Stanhope, the property developer run by Mr Stuart Lipton, was last night making last ditch efforts to stave off receivership.

Since the last formal meeting of Stanhope's 16 lenders last Tuesday, intensive discussions have taken place between the company, its banks and potential rescuers.

The banks, led by Barclays,

must either extend their £140m loans beyond today's repayment deadline or force the company into receivership.

The two main rescue proposals have come from Postal, the post and telecommunications pension fund run by Mr Alan Roper, and British Land, the property investment company headed by Mr John Riddell.

While both rescue packages have been refined to offer Stanhope's lenders better terms, the banks would still have to

write off up to 20p in the pound on their loans.

Alternatively, Stanhope believes it has found an investor willing to provide working capital in return for an equity stake in the company. If the banks agree to a debt standstill of up to three years.

The company hopes that the value of its main asset - a 50 per cent stake in Broadgate Properties, which owns much of the Broadgate and Lodge developments in the City of London - would rise sufficiently during the standstill

period to give the banks full repayment.

However, the banking syndicate has been unable to agree on a course of action. Some of Stanhope's banks also made loans to Broadgate Properties and Rosehaugh, which owns the other half of Broadgate and is already in receivership.

KPMG Peat Marwick would be favourite to be appointed receiver at Stanhope. It already acts for the banks at Rosehaugh and could therefore handle the disposal of Broadgate Properties as a single entity.

Berisford in talks for US purchase

By Simon London

Berisford International, the former property and commodities group which earlier this year bought Magnet Kitchenware, is in negotiations which could lead to the acquisition of a US kitchen equipment maker for about \$500m (£306m).

While talks could be concluded this week, Berisford has yet to agree terms with Wellbilt Corporation, which manufactures commercial kitchen equipment for fast food chains such as McDonalds and Burger King.

If the deal goes ahead, Berisford will finance the deal through a rights issue.

On December 6, Wellbilt said that it had received an approach which could lead to the sale of the company and had appointed Donald Larkin Jewett, the US investment bank, as adviser.

Wellbilt is 47 per cent owned by Mr Jerome Kohlberg, a founder of Kohlberg Kravis Roberts, the leveraged buy-out company. A secondary offering of shares held by Mr Kohlberg was withdrawn when Berisford made its approach.

In 1993 Wellbilt's net income before extraordinary charges was \$9m on turnover of \$426m. The acquisition would allow Berisford to utilise some of its accumulated US tax losses arising from activities in commercial property in the 1980s.

The deal would be Berisford's second large acquisition since Mr Alan Bowkett took over as chief executive in 1992. In January it paid \$56m for Magnet, also financed through a rights issue.

Last year, its £180m bid for C&J Clark, the privately owned shoe company, was rejected.

Thorn EMI sale

Thorn EMI has sold its Thorn Automation engineering business to its management for about £8.25m. The consideration, plus £7m of funding, has been provided by 31 and senior debt and banking facilities by Royal Bank of Scotland.

Rebel shareholders reject QMH proposals

By Tim Burt

Rebel shareholders at Queens Moat Houses yesterday rejected a £1.9m rescue plan for the debt-burdened hotels group, claiming it was unfair to existing investors.

The Queens Moat Houses Shareholders' Action Group, which claims to represent 4,000 investors controlling 10 per cent of the equity, said the plan - involving a £300m debt for equity swap and revised borrowing terms - was "quite unacceptable".

Mr Denis Woodhams, secretary of the group, said holders of ordinary shares were dismayed by moves to dilute their interests from 81 per cent of the company to 24 per cent.

"These proposals are a manifestation of the board's lack of confidence in its own ability to

produce even an industry average profit performance," he added.

The dissenting group has proposed an alternative rescue rights issue drawn up by Mr Peter Eyles, former managing director of Norfolk Capital Group, the luxury hotel company acquired by Queens Moat in 1990.

It is likely, however, to encounter strong opposition from the Queens Moat board.

Mr Andrew Coppel, chief executive, warned last week that the group would have to cease trading if it failed to take up the debt-for-equity and financial reconstruction proposals.

Claims, meanwhile, that the rebel group would receive widespread support at this week's annual meeting have been rejected by the company.

"The institutions were canvassed in advance of our [reconstruction] scheme and are supportive of it," Queens Moat said.

The company also questioned the number of shares controlled by the action group, adding that it would not have an opportunity to challenge the rescue plan until an extraordinary meeting was called in the new year.

Nevertheless, a solicitor acting for Mr John Birstow, Queens Moat's former chairman, is expected to seek an adjournment of Wednesday's annual meeting. Mr Alan Reed, who manages several shareholding trusts, wants the re-election of directors delayed until shareholders have considered the refinancing proposals.

The company dismissed such action as "nonsense making".

Poll taken at Wellcome AGM

By Daniel Green

A revolt by small shareholders at Wellcome's annual meeting forced the company to hold a poll on a special resolution.

The results of the poll showed a big majority in favour of the resolution, thanks to the weight of institutional shareholdings.

The shareholders rebelled against a plan to renew the company's right to issue new shares - up to 5 per cent of the issued capital - for cash, without offering all shareholders the opportunity to avoid dilution by buying some of the newly issued stock.

Such resolutions are not uncommon. They allow management some flexibility in corporate deals, for example to offer shares to a prospective business partner.

Two shareholders spoke against the motion and enough voted against it to make it unclear whether the required 75 per cent majority had been secured. A poll resulted in a 99.37 per cent vote in favour.

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Oceonics in the red as finance director leaves

Oceonics Group, the loss-making marine survey company, announced the departure of its finance director and cuts in executive salaries after sliding into the red with losses of £1.68m in the half year to September 30.

It said Mr Mike Hutchinson would be leaving the group at the end of the current financial year, in which it has cut 131 jobs - 20 per cent of the workforce - amid weak demand and over-capacity in

the offshore oil industry.

The company said Mr David Arnold, the newly appointed group commercial director, would take over as finance director from Mr Hutchinson.

The costs associated with Mr Arnold's appointment were being matched with voluntary cuts in director compensation.

The loss, against pre-tax profits of £222,000 last time, was on turnover down from £13.2m to £8.19m. Losses per share were 1.2p (0.2p).

Royal Bank lifts stake in motor insurance venture

By Ralph Atkins,
Insurance Correspondent

The Royal Bank of Scotland increased by 25m its investment in a new motor insurance company set up with Mr Peter Wood of Direct Line after discussions with the Department of Trade and Industry, the bank's annual report revealed on Friday.

The bank announced last year that it intended to invest £24m in Privilege, which is

aimed at "non-standard" risk drivers, but it increased its stake to £29m in May after talks with the DTI, which is responsible for regulating the insurance industry.

Privilege began trading in the autumn.

Royal Bank of Scotland's decision increased the preference shares it owns in Privilege to 27.5m from 22.5m. The bank also owns 1.5m ordinary shares and Mr Wood owns a further 1m.

NEWS DIGEST

Phoenix recovers to £173,000

Phoenix Timber Group swung back into the black at the mid-term stage as the Essex-based flooring company built upon the improvement shown in last year's second half.

Turnover from continuing operations amounted to £8.58m (£8.33m) in the six months to September 30, including £54,000 from acquisitions. After a reduced interest burden, pre-tax profits were £173,000, against losses of £525,000.

The company stressed, however, that the improvement mainly reflected cost cutting; the market for its main operations remains weak, although trading in the last three months has shown some "encouraging signs".

Earnings per share emerged at 0.55p, against losses of 1.94p.

Electra Inv Trust

Fully diluted net asset value per share at Electra Investment Trust stood at 380.24p at end-September, against 341.3p a year earlier. This represented a rise of 11.4 per cent, while the FT-SE-A All-Share Index rose by 0.3 per cent in the period.

Net revenue for the year was £14.7m (£14.1m), with earnings of 7.5p (7.54p). A proposed final dividend of 3.7p (3.55p) gives a total of 7.25p (7p).

Haemocell

In a year of "consolidation and change", Haemocell, the USM-quoted medical equipment maker, incurred increased pre-tax losses of £2.52m against £2.13m for the 12 months to August 31.

The primary task, according to Mr Andrew Priestly, chairman, had been to restructure operations and establish an international sales and distribution network.

Turnover was £212,000, compared with £11.2m which included an exclusive distributor's inventory, most of which was repurchased or returned as part of the termination agreement.

The company's priority remained to market its System 350 blood transfusion device, Mr Priestly said.

Losses per share were 10.5p (10.1p).

Chemex Int

Chemex International, the USM-traded chemical analysis company, continued its recovery into the second half, ending the year with a pre-tax profit of £135,534, against a deficit of £12,961 last time.

Turnover for the 12 months

to September 30 grew to £1.58m (£1.33m) and the pre-tax outcome was struck after net interest payable of £3,141 compared with income of £2,337.

Earnings emerged at 0.33p (0.03p losses) and the company is introducing dividend payments with a 0.1p distribution for the year.

It also said it intended to apply for a full listing.

Bankers Inv Trust

The Bankers Investment Trust saw net asset value per share decline 2.3 per cent from 183.5p to 179.3p in the year to October 31. The FT-SE-A All-Share Index fell by 1.9 per cent over the period.

Net revenue edged ahead to £6.66m (£6.61m), with earnings at 4.26p (4.23p) per share. A fourth interim dividend of 0.99p gives a total of 3.9p for the year, up from 3.68p. A total of not less than 4.12p is forecast for the current year.

WINDSOR PROFITS GROWTH 56% INCREASE TO £1.1 MILLION

Windsor PLC, the specialist Lloyd's broker, announces its unaudited results for the year ended 30th September 1994.

- Operating profits up 56 per cent to £1.1 million (1993 £706,000 before exceptional expenses).
- Resumption of dividend payment - the board proposes the payment of a final dividend of 0.5p (a half pence) per share.
- Earnings per share - adjusted to exclude exceptional items - increased by 99 per cent to 2.65p (1993 1.33p adjusted).
- Operating income (including acquisitions) increased by 19 per cent to £9.3 million (1993 £7.8 million).
- Acquisitions - PS Mossé & Partners Limited business contributing good profits; recent acquisition of RCM Associates (Insurance Brokers) Limited will boost brokerage income and strengthen Windsor's presence in motor sport insurance market.
- Investment property now 50 per cent let and balance of space under negotiation.

Commenting on the results the Chairman, Stuart McDonald said, "It is clear that there is a growing need for the specialist broker and there are opportunities for Windsor to expand its business in profitable niche sectors. We will continue to grow our provincial businesses and expect to make further acquisitions in complementary specialist areas. I look forward with optimism to the coming year."

WINDSOR

Windsor PLC, Lyon House, 160-166 Borough High Street, London. SE1 1LR.

This announcement appears as a matter of record only.



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4,408,060 European Depositary Receipts
representing 13,224,180 Shares

Issue Price of U.S. \$7.94 per
European Depositary Receipt

WEST MERCHANT BANK LIMITED

STANDARD BANK LONDON LIMITED

October, 1994

U.S. \$150,000,000



中國人民建設銀行

The People's Construction Bank of China
(Established under the laws of the People's Republic of China)

Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from December 19, 1994 to June 19, 1995 the Notes will carry an Interest Rate of 7.4875% per annum. The interest payable on the relevant interest payment date, June 19, 1995 will be U.S. \$37.85 per U.S. \$1,000 Note and U.S. \$9,463.37 per U.S. \$250,000 Note.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank
December 19, 1994



Dividend No. 430

NOTICE IS HEREBY GIVEN THAT a dividend of 29 cents per share upon the paid up Common Shares of this Bank has been declared payable for the current quarter at the Bank and its branches on and after February 24, 1995 to shareholders of record at close of business on January 25, 1995.

By Order of the Board
Jane E. Lawson
Senior Vice-President & Secretary
Montreal, December 6, 1994

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ESP 20,000,000,000

Capped Floating Rate Notes

Due 1999

The notes will bear interest at 8.45% per annum for interest period 15 December 1994 (included) to 15 March 1995 (included).

Interest payable on 15 March 1995 will amount to ESP 2,113 per note.

BANCO CENTRAL ITALIANO
Paying and calculation Agent

السوق المالية

ING BANK

FINANCIAL TIMES
MARKETS
THIS WEEK

Best Emerging Markets Bank
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Next month, America's newly triumphant Republicans will seek to amend the US constitution to make it illegal for the government to borrow money.

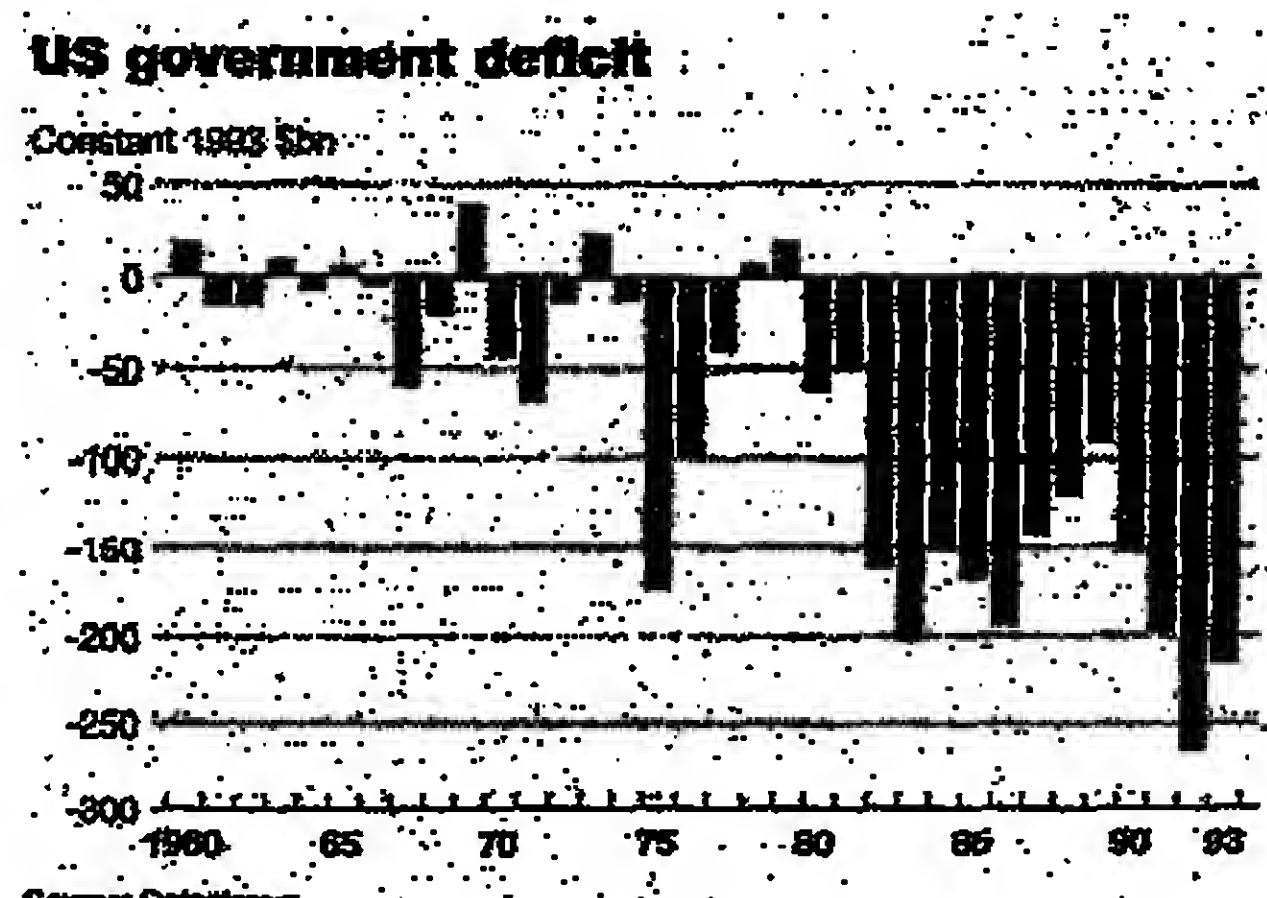
A world without Treasury bonds

Global Investor / Tony Jackson in New York

Next month, America's newly triumphant Republicans will seek to amend the US constitution to make it illegal for the government to borrow money. The permanently balanced budget is an old dream of the right in more countries than the US, and few give this latest attempt even a fighting chance. But these are strange times, and it pays to allow for contingencies. From an investor's point of view, what would a world without Treasury bonds actually look like?

To begin with, it would not happen all at once. The Republicans' plans are still impractical, but the general notion seems to be a steady reduction of the budget deficit to zero over the next decade or so. Further borrowing would then be outlawed, and any occasional surplus would be used to pay off the backlog. This would presumably take several decades again.

At present, the total of US Treasury bonds outstanding is about \$3,500bn. Annual issuance, net of redemptions, is about \$175bn. These numbers, big as they are, need to be put in context. US Treasuries are the classic international investment, and global savings run



Source: Congressional Budget Office

at about \$3,000bn a year. The annual supply of T-bonds, in fact, soaks up only a small part of the cash looking for a home. All the same, \$3,500bn is a lot of money. If T-bonds did disappear, the market would require them to be replaced by some other instrument as like them as possible. A number of financial institutions have long-term cash liabilities which they need to match with long-term, fixed-rate assets.

The obvious candidates to fill the gap are corporations. At present, most companies use equity and bank finance more often than they would like; logically, fixed-rate bonds would make their long-range planning a lot simpler. But they tend to be crowded out by governments, which can command lower yields. Take the government out of the equation, and the yields on corporate bonds would decline to the level at which long-term savers could persuade corporate borrowers to provide an alternative home for their money.

Much of this would presumably represent new capital for

Total return in local currency to 16/12/94

	US	Japan	% change over period	UK	FR	DE
Cash						
Week	0.11	0.04	0.10	0.10	0.18	0.11
Month	0.45	0.19	0.42	0.45	0.69	0.47
Year	3.75	1.88	3.25	3.63	8.13	5.08
Bonds 3-5 year						
Week	0.27	0.23	-0.13	-0.78	-0.73	0.17
Month	0.08	0.06	0.02	-0.17	-0.20	0.57
Year	-2.58	-1.09	-0.12	-1.38	0.64	-1.16
Bonds 7-10 year						
Week	0.22	0.25	-0.58	-0.75	-1.11	0.38
Month	0.05	0.25	0.02	-0.07	-0.10	1.18
Year	-5.52	-3.54	-4.53	-7.15	-6.70	-5.51
Equities						
Week	1.1	-1.5	-1.3	-1.7	-3.7	-2.1
Month	-2.9	-1.7	-4.2	-2.1	-5.8	-5.1
Year	0.8	-3.7	-6.3	-7.2	-1.0	-2.2

Source: Cash & Bonds - Lehman Brothers. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

with sometimes patchy results. How corporations would spend their money this time round is an open question. It seems fair to assume, though, that faced with an abundance of capital, they would continue to substitute capital for labour. There have been huge advances in manufacturing productivity in recent years. Much remains to be done in the service sector.

The next obvious question is how many of the people whose labour is replaced can be usefully re-employed. At this point, what might otherwise seem a wholly benign process turns potentially ugly.

One need not be a Republican hawk to concede that for global savings to be allocated by Adam Smith's invisible hand, rather than by civil servants, is likely to improve economic efficiency. But corporations are not in the business of providing safety nets. What happens if the invisible hand throws people out of work, while at the same time civil servants are deprived of the funds to help the unemployed? There are other pressures in the same direction. As Mr Lipsey argues, governments - take Italy as an example - will eventually have to face the fact that their unfunded liabilities in pensions and other benefits represent an unsustainable burden on future generations.

The obvious answer is to privatise those liabilities, so that people take upon themselves the whole responsibility for their pensions or healthcare. The result of this would be a sharp rise in personal savings and a corresponding drop in government borrowing.

Mr Hale takes the argument a step further. The whole idea of balancing the budget through a constitutional amendment, he argues, has a sub-plot. One of the biggest burdens on the federal budget is the vast panoply of tax

breaks and subsidies enjoyed by middle class America. Give the balanced budget constitutional teeth, says Mr Hale, and you have the means to enforce the revolutionary next step: the means testing of social security. Here again, the result is the same: higher saving, less government spending and more money for investment by the corporate sector.

If America moved any distance in this direction, it would not move alone. The natural result of a systemic shift of funds away from government towards corporate investment would be higher productivity and increased competitiveness. In a world of weakening trade barriers, this competitiveness would translate into pressure on America's trading partners to follow suit.

One need not regard the objectives of the Republican right as plausible, or even desirable, to find the trends they represent thought-provoking. Even a move in the direction of a balanced budget, after all, would have sizeable implications. One final investment tip from Mr Hale: three-quarter of the business on the Chicago futures exchanges is in Treasury bond futures. So if you think the Republicans are going to have their wicked way, go short of seats on the Chicago Board of Trade.

COMMODITIES

'Death cross' looms for gold

Seasonal spirit among the world's gold traders could be dampened this week by what an analyst describes as an "arithmetical sword of Damocles" hanging over their market.

Mr Andy Smith, of the Union Bank of Switzerland, warns that the market needs to rally soon to avoid being caught in a "death cross", which, according to technical theory, could signal a sharp price fall.

This would occur, he says, if the 200-day moving average was crossed by the 50-day moving average while both were falling.

A similar situation in the silver market in late November augured a sudden 15 per cent fall in that market.

In New York, meanwhile, most gold analysts are expecting the market to remain dull next year, though they say an improving supply-and-demand outlook should sustain the modest firming trend of the past two years.

"The market has been in a better balance this year, and we are looking for growing

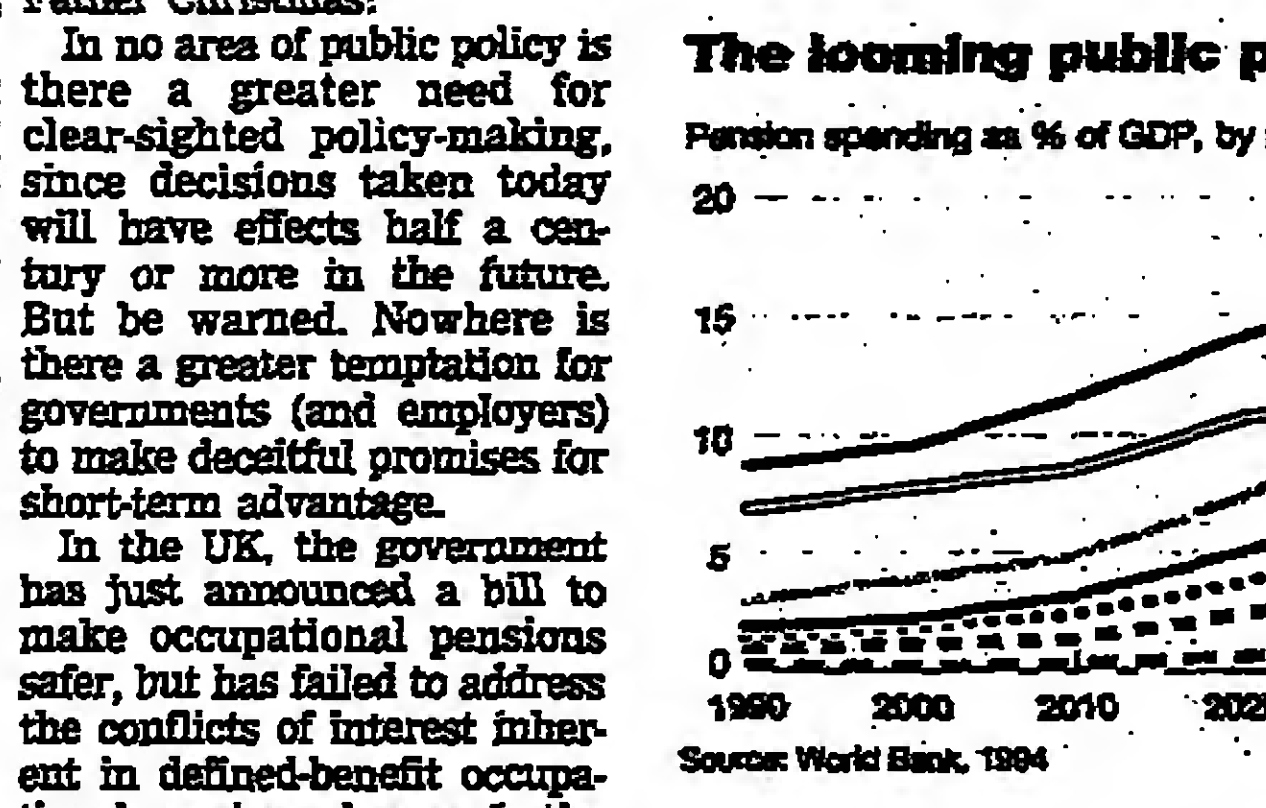
supply deficits in the years to come," Mr George Milne-Stanley, Lehman Brothers analyst, told the Reuters news agency last week. "This scenario should be supportive of gradually rising prices."

Throughout 1994, the spot price of gold languished within a thin \$30 band from \$368 to \$398 an ounce, far narrower than 1993's \$80 range.

De Beers, the South African group whose London-based Central Selling Organisation accounts for at least 80 per cent of world trade in rough

Economic Eye / Martin Wolf

Confronting the old age crisis



Source: World Bank, 1994

Do you expect future generations to pay you a good pension over decades of secure retirement? Do you also believe in Father Christmas?

In no area of public policy is there a greater need for clear-sighted policy-making, since decisions taken today will have effects half a century or more in the future. But be warned. Nowhere is there a greater temptation for governments (and employers) to make deceitful promises for short-term advantage.

In the UK, the government has just announced a bill to make occupational pensions safer, but has failed to address the conflicts of interest inherent in defined-benefit occupational pension schemes. In the US, a bi-partisan commission has failed to agree on how to contain the burgeoning cost of entitlement programmes. In Italy, the fiscal programme of Mr Silvio Berlusconi has been undermined by the constitutional court's insistence that it pay arrears on certain pensions, going back to 1983.

As a superb, but under-reported World Bank study, published earlier this autumn, shows, all these are but different aspects of the world's rapid ageing. Nor is this mainly a problem for industrial countries. The number of people over 60 is forecast to rise from half a billion in 1990 to 1.4bn by 2030. Some 28 per cent of that increase is to be in China alone; another 28 per cent in the rest of Asia; and 28 per cent in other developing and transitional countries. Only 14 per cent will be in industrial countries.

The burden of public pensions is set to rise sharply (as is shown in the chart, on the assumption that the current relationship between demography and spending on pensions continues). Today the Italian state is tottering under the burden of paying just over

14 per cent of gross domestic product in pensions, but the average burden of industrial countries is set to be higher than this by 2030. The increased costs will be still more difficult to bear in poor developing countries, such as China. Health spending is also correlated with ageing. In Australia, for example, public health spending per head on people over 65 is six times that on children under 15.

Ageing is, in fact, the world's most important economic challenge. Pension and health spending on the old either is already - or will become - the largest item of public spending virtually everywhere. In Austria and Sweden, it is already close to 20 per cent of GDP. In OECD countries, implicit pension debt exceeds reported public debt by large amounts. In the UK, for example, the ratio of public debt to GDP in 1990 was 35 per cent, while the implicit pension debt was over 150 per cent of GDP. Italian implicit pension debt was almost 250 per cent of GDP, dwarfing the explicit debt ratio of over 100 per cent.

Ageing is important for equality between the sexes, since women are much more likely to be old and poor than men. Meanwhile, heavy payroll taxes, largely to cover pensions, represent an important cause of high levels of unemployment, notably in Europe. In the UK, for example, the payroll tax rate was close to 20 per cent in 1990. In Poland, it was 25 per cent. Pension systems also have implications for savings, while private pension funds have become massive players in capital markets. In 1991, pension fund assets were two thirds of GDP in the US, 70 per cent in Switzerland, 73 per cent in the UK and 76 per cent in the Netherlands.

If any area of public policy requires long-term planning, it is pensions. Unfortunately, governments have set up public pension schemes that generated hugely positive real returns to the first cohorts of beneficiaries, but negative real returns for their matured. In the case of the US, for example, the real return to those retiring 25 years after the establishment of social security was 9 per cent, but this fell to below 4 per cent for

Notice to Bondholders

KOLON INDUSTRIES INC.

(Incorporated in the Republic of Korea with limited liability)

(the "Company")

U.S. \$50,000,000

0.25% Convertible Bonds due 2004

(the "Bonds")

Pursuant to the Trust Deed dated February 22, 1994, notice is hereby given as follows:

The Board of Directors of the Company resolved on December 16, 1994 that an agenda for the declaration of stock dividend be submitted to the general shareholders meeting scheduled to be held in March 1995 as follows:

1. Record Date: December 31, 1994.
2. Details of Stock Dividend: 0.02 of a Common Share per Common Share or Non-voting Share outstanding on the Record Date.

A further notice will be given to bondholders with respect to the adjusted Conversion Price as a result of the stock dividend and the declaration of the Stock Dividend at the general meeting of shareholders.

The Chase Manhattan Bank, N.A., as Principal Paying Agent and Conversion Agent

December 19, 1994

Prices for delivery determined for the purposes of the monthly pricing and settlement of the monthly futures contracts for the period ending on 15/12/94

Month	Price	Volume	Open Interest
12/94	12.00	100	100
03/95	12.05	100	100
06/95	12.10	100	100
09/95	12.15	100	100
12/95	12.20	100	100
03/96	12.25	100	100
06/96	12.30	100	100
09/96	12.35	100	100
12/96	12.40	100	100
03/97	12.45	100	100
06/97	12.50	100	100
09/97	12.55	100	100
12/97	12.60	100	100
03/98	12.65	100	100
06/98	12.70	100	100
09/98	12.75	100	100
12/98	12.80	100	100
03/99	12.85	100	100
06/99	12.90	100	100
09/99	12.95	100	100
12/99	13.00	100	100
03/00	13.05	100	100
06/00	13.10	100	100
09/00	13.15	100	100
12/00	13.20	100	100
03/01	13.25	100	100
06/01	13.30	100	100
09/01	13.35	100	100
12/01	13.40	100	100
03/02	13.45	100	100
06/02	13.50	100	100
09/02	13.55	100	100
12/02	13.60	100	100
03/03	13.65	100	100
06/03	13.70	100	100
09/03	13.75	100	100
12/03	13.80	100	100
03/04	13.85	100	100
06/04	13.90	100	100
09/04	13.95	100	100
12/04	14.00	100	100
03/05	14.05	100	100
06/05	14.10	100	100
09/05	14.15	100	100
12/05	14.20	100	100
03/06	14.25	100	100
06/06	14.30	100	100
09/06	14.35	100	100
12/06	14.40	100	100
03/07	14.45	100	100
06/07	14.50	100	100
09/07	14.55	100	100
12/07	14.60	100	100
03/08	14.65	100	100
06/08	14.70	100	100
09/08	14.75	100	100
12/08	14.80	100	100
03/09	14.85	100	100
06/09	14.90	100	100
09/09	14.95	100	100
12/09	15.00	100	100
03/10	15.05	100	100
06/10	15.10	100	100
09/10	15.15	100	100
12/10	15.20	100	100
03/11	15.25	100	100
06/11	15.30	100	100
09/11	15.35	100	100
12/11	15.40	100	100
03/12	15.45	100	100
06/12	15.50	100	100
09/12	15.55	100	100
12/12	15.60	100	100
03/13	15.65	100	100
06/13	15.70	100	100
09/13	15.75	100	100
12/13	15.80	100	100
03/14	15.85	100	100
06/14	15.90	100	100
09/14	15.95	100	100
12/14	16.00	100	100
03/15	16.05	100	100
06/15	16.10	100	100
09/15	16.15	100	100
12/15	16.20	100	100
03/16	16.25	100	100
06/16	16.30	100	100
09/16	16.35	100	100
12/16	16.40	100	100
03/17	16.45	100	100
06/17	16.50	100	100
09/17	16.55	100	100
12/17	16.60	100	100
03/18	16.65	100	100
06/18	16.70	100	100
09/18	16.75	100	100
12/18	16.80	100	100
03/19	16.85	100	100
06/19	16.90	100	100
09/19	16.95	100	100
12/19	17.00	100	100
03/20	17.05	100	100
06/20	17.10	100	100
09/20	17.15	100	100
12/20	17.20	100	100
03/21	17.25	100	100
06/21	17.30	100	100
09/21	17.35	100	100
12/21	17.40	100	100
03/22	17.45	100	100
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12/22	17.60	100	100
03/23	17.65	100	100
06/23	17.70	100	100
09/23	17.75	100	100
12/23	17.80	100	100
03/24	17.85	100	100
06/24	17.90	100	100
09/24	17.95	100	100
12/24	18.00	100	100
03/25	18.05	100	100
06/25	18.10	100	100
09/25	18.15	100	100
12/25	18.20	100	100
03/26	18.25	100	100
06/26	18.30	100	100
09/26	18.35	100	100
12/26	18.40	100	100
03/27	18.45	100	100
06/27	18.50	100	100
09/27	18.55	100	100
12/27	18.60	100	100
03/28	18.65	100	100
06/28	18.70	100	100
09/28	18.75	100	100
12/28	18.80	100	100
03/29	18.85	100	100
06/29	18.90	100	100
09/29	18.95	100	100
12/29	19.00	100	100
03/30	19.05	100	100
06/30	19.10	100	100
09/30	19.15	100	100
12/30	19.20	100	100
03/31	19.25	100	100
06/31	19.30	100	100
09/31	19.35	100	100
12/31	19.40	100	100
03/32	19.45	100	100
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12/32	19.60	100	100
03/33	19.65	100	100
06/33	19.70	100	100
09/33	19.75	100	100
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12/34	20.00	100	100
03/35	20.05	100	100
06/35	20.10	100	100
09/35	20.15	100	100
12/35	20.20	100	100
03/36	20.25	100	100
06/36	20.30	100	100
09/36	20.35	100	100
12/36	20.40	100	100
03/37	20.45	100	100
06/37	20.50	100	100
09/37	20.55	100	100
12/37	20.60	100	100
03/38	20.65	100	100
06/38	20.70	100	100
09/38	20.75	100	100
12/38	20.80	100	100
03/39	20.85	100	100
06/39	20.90	100	100
09/39	20.95	100	100
12/39	21.00	100	100
03/40	21.05	100	100
06/40	21.10	100	100
09/40	21.15	100	100
12/40	21.20	100	100
03/41	21.25	100	100
06/41	21.30	100	100
09/41	21.35	100	100
12/41	21.40	100	100
03/42	21.45	100	100
06/4			

EQUITY MARKETS: This Week

NEW YORK

Lisa Bransten

Chances look better for a holiday rally

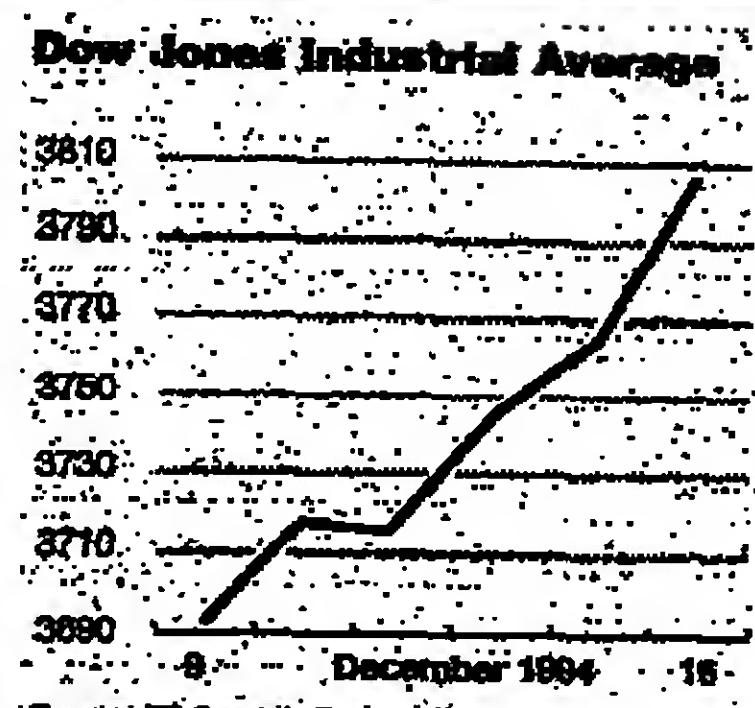
Ever since the Federal Reserve last raised interest rates in November the market has zig-zagged as investors tried to guess whether the Fed would raise rates again in December. This week they should produce an answer after the Fed's open market committee meeting holds its final meeting of the year tomorrow.

It was not until the central bank boosted interest rates by 75 basis points on November 15 that the market woke up to the reality that the Fed chairman, Mr. Alan Greenspan, meant business when he promised to bring inflationary pressures out of the economy.

The following week, stocks took a nose-dive as strong economic data suggested to market players that earnings might be battered by another rate increase by the year-end. Also that week, the yield curve representing the spread between two-year notes and the long bond began to flatten, indicating that bond market players expected an economic slowdown.

Last week, however, sentiment began to shift as relatively tame increases in consumer and producer price indices suggested that the Fed might wait to see the full effects of this year's six increases before undertaking more tightening. The yield curve, which had tightened to 13 basis points, spread back out to 28 points by the end of the week and the Dow recovered 3 per cent of its value.

Stocks typically get a boost at the end of the year, but until last week analysts were sceptical about whether the market could stage its traditional holiday rally.



Source: FT Comptel

Now investors will be watching to see if the market's recovery was due to fundamental changes in sentiment or technical factors surrounding last Friday's "triple-witching hour", when options and futures on stock indices expired together in 60 minutes of trading.

Mr. David Struinan, chief equity strategist at Salomon Brothers, believes it was a bit of both. "The consumer and producer price data were good and we got put into overdrive by options," he says.

Data on November durable goods orders due out on Friday should give investors an indication of Fed policy for the coming year, but reaction may be muted as Friday is the last day of trading before Christmas and volumes are expected to be low. A consensus of economists expects orders to increase by about 1.4 per cent after a 1.0 per cent decrease in October.

On Thursday, the Commerce Department will release its final GDP figure for the third quarter, but the number is not expected to have much of an effect as investors have already seen two preliminary figures. At the end of November, third-quarter GDP growth was estimated to be 3.3 per cent and analysts do not expect any significant change.

LONDON

Steve Thomson

Merger talk brings cheer for Christmas

Until last Thursday afternoon it seemed that the festive season had turned into the open season. At least, that is, as far as the merger talk and regional electricity stocks were concerned.

Just as the institutions and the market's big trading houses began to wind down for the Christmas break, with no signs of the expected and traditional year-end rally, up popped news of merger talks between S. G. Warburg and Morgan Stanley, closely followed by news that Trafalgar House was considering a bid for Northern Electric.

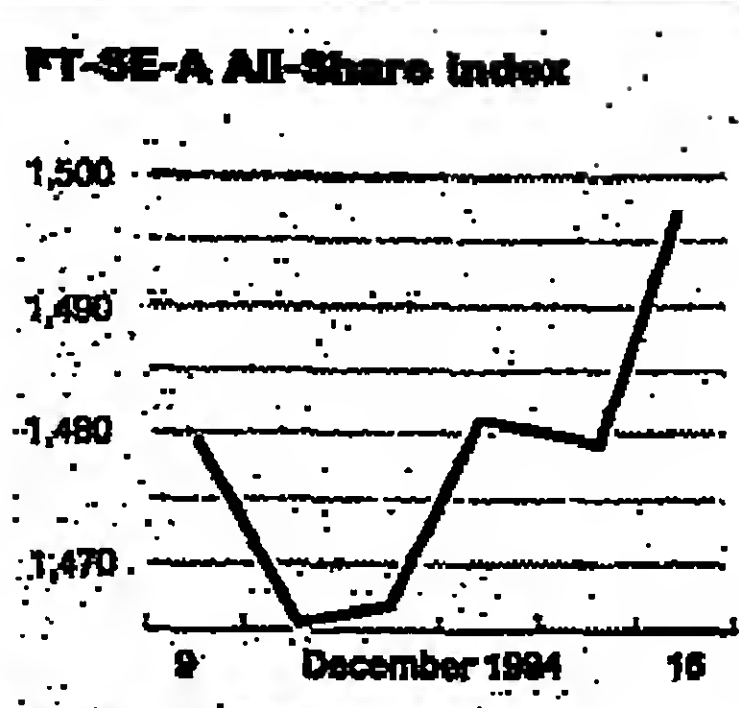
Those two pieces of news, plus widespread expectations that there could well be other big bids in the market, dispelled much of the recent gloom in UK equities.

With the FT-SE 100 index having fallen below 3,000 - it reached its lowest level for five months early last week - the general consensus around the City's trading desks now is that the market can make some progress as we move into 1995.

And in spite of the surprisingly abrupt termination of the merger talks between Warburg and Morgan, which drove Warburg shares back to their pre-merger levels, there is a much better feeling to the equity market.

Activity this week will inevitably slacken as the winding down process really gets under way and there are no really big results scheduled outside the utilities area.

But as a broker at one of the City's blue-blooded securities houses put it last week, the big corporate finance



Source: FT Comptel

departments in London's merchant banks and stockbroking firms are being put on "red alert" for the new year, which many expect to bring a burst of takeover activity.

It is the utilities area of the market that strategists see as attracting much of the corporate activity. With the government's golden shares in each of the water stocks privatised in 1989 due to disappear at the end of this month and those of the electricity companies, privatised in 1990, due to expire at the end of March 1995, the two sectors are the market's prime candidates to attract the attentions of predators.

Analysts have long suggested that the powerful US utility companies have been eyeing the cash generative electricity companies. Strategic mergers among various water and electricity stocks are also said to be on the cards.

There are, however, two not-insignificant hurdles for the market to negotiate this week. Tuesday's Federal Reserve Open Market Committee meeting, which will ponder US monetary policy, and Thursday's Bundesbank Council meeting. The markets are betting on both institutions leaving their interest rates unchanged.

But you never know.

Portuguese privatisation

Lisbon to take global path for rest of programme

Portugal is preparing to tap international markets with its first global equity issues as the privatisation programme that has raised more than \$28.8bn (\$5.8bn) over the past five years moves beyond the capacity of domestic investors.

A simultaneous offer of 25 per cent of Portugal Telecom in New York, London and Lisbon next May, raising an expected \$2.4bn, will be the centrepiece of several Portuguese equity issues in 1995 that will test the government's adroitness in approaching international markets.

Global offers of substantial holdings in Cimpor, one of Europe's top 10 cement companies, and Companhia Portuguesa de Producao de Electricidade, a power production utility, are also in the pipeline.

But only the Cimpor issue is likely to be completed before a general election due in October 1995 at the latest.

The move into international markets is attracting global banks to a privatisation programme that stimulated little interest when it was limited to domestic investors. Merrill Lynch, the US investment bank, will lead the global issuing consortium for Portugal Telecom. Morgan Stanley is advising on the structure of Cimpor's offer.

Sale of a first tranche of 20 per cent of Cimpor in July pro-

vided some important lessons that the Portuguese authorities appear to be assimilating. Although a domestic issue, Cimpor had hoped to attract strong interest from overseas. But foreign investors acquired only a disappointing 30 per cent - although foreign institutions underwrote 47 per cent - in an operation that raised \$2.9bn.

The most damaging drawback was the fixing of the issue price by government decree almost two months before the sale. The market dropped 15 per cent in the interim and investors shied away. The authorities are committed to eliminating this risk from future offers by setting only a price range by decree and delegating the exact fixing for a few days before the operation.

Guaranteeing flexibility for the PT issue, Mr. Eurico Cabral da Fonseca, chairman of Comunicacoes Nacionais, the state holding company for the telecommunications sector, said: "The global offer will be subject to the principle of open pricing, giving priority to the level of demand and to establishing an equilibrium price as a trading reference for secondary markets."

Criticism was also levelled at the government for failing to give a sufficiently authoritative mandate to Cimpor's

underwriting banks - led by state-owned Banco Fomento e Exterior in Portugal and overseas by Baring Brothers - to organise the issue efficiently. "Potential investors were being called up by 10 or 12 different banks without any co-ordination," said a London dealer.

This was another valuable lesson. Portugal is now counting on leading global banks to mount efficient book-building systems and co-ordinate complex operations over several markets.

The PT operation is an ambitious first step. One tranche, expected to raise about \$2.9bn, is to be sold in Portugal. An offer of American Depositary Receipts will be made simultaneously in New York, together with an issue in London including separate UK and international tranches.

A further 25 per cent of Cimpor originally due to be issued in New York is now expected to be postponed. "Cimpor would have to be offered by the first week of March to avoid draining liquidity from the market before the PT operation," said an analyst in London. "But the company is unlikely to have its 1994 results and financial holdings sufficiently clarified to be ready by then."

Peter Wise

OTHER MARKETS

MILAN

The market is bracing itself for further fireworks this week when Mr. Silvio Berlusconi, the prime minister, faces a confidence vote, probably on Wednesday, that could topple him from power. The market rose above the political fray towards the end of last week, recouping the sharp losses of Monday and enabling the index to close flat on the week.

Dealers also reported that foreign investors were returning as buyers, apparently heeding the advice of a growing bank of strategists that the time is right for the market to turn after falls in recent months.

FRANKFURT

The Bundesbank council holds its last meeting of the year on Thursday, but few analysts expect any news of a change in interest rates.

James Capel says that in spite of still weak retail sales, the strength of third-quarter GDP data and rising capacity utilisation will mitigate against an interest rate cut. Capel still expects the next move in rates to be up, and the most likely time to be the second quarter of next year.

The broker notes that the Bundesbank will also announce its monetary targets for next year, but does not expect any change from the current 4-6 per cent range.

The coming week will also be a busy one for economic statistics, with data coming on November 10, producer prices, consumer prices and October's trade figures.

ZURICH

Rising interest rates and the consequent likelihood of reductions in economic growth forecasts by the markets urge caution, says UBS.

Nevertheless, in global terms, structural and economic factors point to a relatively good performance for Swiss equities.

UBS says its recent contacts with companies have confirmed the strong momentum of earnings.

"Profits of the largest cyclical industrial firms will rise from SF2.9bn in 1990 to SF3.9bn in 1996," it says. Aggregate profits of Swiss quoted companies would probably grow at a double-digit rate in Swiss franc terms this year, in 1995 and in 1996, UBS added.

The high share of profits generated in Europe and the Asia Pacific constituted a high degree of resistance to the negative impact of any US policy tightening, said UBS.

"The defensive character of the equity market, which amounted to a disadvantage amid the growth euphoria of the first half of this year, will have an increasing positive impact in 1995,"

COPENHAGEN

In a week largely bereft of results elsewhere, Denmark will have half-year results today from Danisco, the food and beverages, food ingredients and packaging conglomerate, and Radiometer, the medical measuring equipment maker.

Daiva Europe notes that Danish shares dropped in November for the fourth month running, but nearly reached stability after more pronounced weakness earlier.

"These declines, combined with an upward revision of our earnings projects, bring Denmark into the reasonable range of multiple valuations for 1995 and 1996," Daiva said.

TOKYO

In a week shortened by a national holiday on Friday to mark the birthday of Emperor Akihito, the market is awaiting today's announcement of the government's economic growth target for the fiscal year to March 31 1996, writes Robert Patton.

And at the same time, Mr. Yasuo Matsushita, who was installed as governor of the Bank of Japan on Saturday, will hold his first news conference. Some analysts note that given his background, there is some speculation that Mr. Matsushita may be more inclined to assist the financial system than his predecessor.

Tomorrow, the Ministry of Finance will present a draft budget for other ministries and agencies for the next fiscal year.

HONG KONG

Share prices are expected to move higher this week, after the Hang Seng index's climb through the 8,000-point level last week, writes Louise Lucas.

The index picked up 4.8 per cent last week and closed on Friday at 8,166.39, although turnover remained thin.

However, the index is unlikely to breach 8,500 because of the negative view being taken of the property market, which claims an exposure of some 40 per cent on the index. The sector was not

encouraged by last week's withdrawal of a building plot at auction in the face of no bids, while fears over China's spiralling inflation have also taken a toll.

Late last week, the market took heart from gains on Wall Street, and a belief that the US Federal Open Market Committee may not raise interest rates tomorrow, but instead wait until the new year.

The bargain hunting and short-covering sparked by last Thursday's recovery are likely to recur if interest rates are not lifted, although brokers continue to warn against seeing any bounce as a convincing recovery.

Compiled by Michael Morgan

COMPANY NEWS: UK

The Emerging Investor / Francis Ghiles

Casablanca puts itself on the map

New share issues, privatisations, the arrival of foreign investment funds, and the reform of the bourse's organisation have completely transformed the Casablanca stock exchange in less than two years. As a result the stock market has established itself as the second largest on the African continent, excluding South Africa, with a market capitalisation of about \$5bn.

For Moroccan and foreign investors, last month's sale of the state's 66.64 per cent stake in the Societe Nationale d'Investissement marked a watershed in the kingdom's privatisation programme.

The sale, for which Pallas Stern, a subsidiary of Swiss Bank Corporation, acted as adviser, netted an estimated Dh2.08bn (\$222m), twice the amount raised in July 1993 when the state sold 51 per cent of the CIO's cement company to a French subsidiary of the Swiss Holderbank group.

The increasing involvement of US, UK and French portfolio managers in the Casablanca market reflects an improved perception of the Moroccan economy, now that the IMF-backed adjustment of the 1980s has been completed and the country has resumed repaying its debts after a series of rescheduling agreements.

Over the past 12 months, some \$200m of foreign money has come onto the market, about 40 per cent of total volume, according to Mr. Adil

Douiri, co-founder of Casablanca Finance Group, a financial intermediary company set up in 1992. He expects such inflows to reach \$500m next year.

According to Upline Securities, a stockbroker which alone in Morocco provides market research in corporate finance, the total volume of foreign investment in Morocco, including the aforementioned \$200m, is set to top \$1bn this year.

Trading volume so far in 1994 has reached Dh7bn, which amounts to a 97 per cent increase against the first 11 months of 1993. The overall share index has shown a 30 per cent rise so far, while the CFI 25 share index has risen by 36 per cent. However, the bourse does have some very illiquid shares, making the market more attractive for wealthy individuals or funds than individual investors.

The reform of the bourse, approved in September 1993, is still in the process of being implemented, and is based on the French model. It involves converting the market into a limited company in which the stockbrokers are shareholders. Its aims include better company information - up to now a very opaque area as most companies are family owned and operated and accounts are seldom audited by international auditing firms; more protection for investors, and a broader range of financial instruments.

Ten best performing stocks				
Stock	Country	1993/94	1994/95	% change
Husson Telfon	Tunisia	1,291.2	0.2837	29.44
Telefon	Brazil	0.0450	0.0053	13.40
France One	Thailand	14,4137	1.6872	13.08
Philippine National Bank	Philippines	14,0168	1.6199	13.07
Berito Pacific Timber	Indonesia	1,5429	0.1498	10.75
HM Sempena	Indonesia	4,7541	0.4351	10.15
Advanced Info Services	Thailand	13,8563	1.2681	10.08
Technology Resources Industries	Malaysia	3,3732	10,2824	9.49
Bangkok Bank	Thailand	7,9439	0.5740	9.40
SM Prime Holdings	Philippines	0.3261	0.0281	9.38

Source: Baring Securities

The reforms have prompted the emergence of investment funds. The largest include the \$39m Morocco Fund, jointly owned by ONA, the kingdom's largest company, and Salomon Brothers; the \$15m Interfin Fund, jointly owned by three Moroccan banks, the International Finance Corporation and Spain's Banco Exterior; a \$30m fund set up by Framlington, a subsidiary of Credit Commercial de France and the International Finance Corporation; and another by Morgan Stanley Africa Investment Fund.

ONA has further contributed to the modernisation of the financial system by a capital increase in May which took the form of the largest share issue ever in the country, worth \$100m. ONA allowed foreign investors to buy into its capital, one third of which is now owned by Morgan Stanley, Lehman Brothers, Paribas, BSN Danone and Assurances Generales de France, George

Soros's Quantum Emerging Growth Fund bought a 2 per cent stake, for \$40m, last April.

The reasons for the interest Morocco provokes abroad are easy to see. Mr. Pierre Lasserre, who runs Finacor, the largest money broker in Paris, last year bought a 47.5 per cent stake in Upline Securities, which has just gained a seat on the Casablanca stock exchange. Mr. Lasserre sees "many opportunities in Morocco" and was keen to "back a group of energetic and enterprising young Moroccan".

All however is not plain sailing, as the minister for privatisation, Mr. Abderrahmane Serfati, publicly acknowledged after the privatisation of SNI. Demand for the shares of SNI, a holding company whose interests include cement, drinks and the financial sector, was very strong, but the manner in which shares were allocated has left a sour taste in the mouths of some investors.

One fifth of all the shares on offer was floated on the Casablanca stock exchange during the first week in November at Dh300 a share and was eight times subscribed. This came as little surprise to bankers in Casablanca as SNI shares were trading at Dh425 when they were suspended a few days before the offering, but had the advantage, from the government's point of view, of encouraging institutional investors to offer a higher price for the shares.

The authorities allowed the trading of SNI shares to resume before they had completed the sale of the two other tranches, which went to institutional investors. This encouraged people to borrow money and make a quick killing. However, this reinforced critics in their view that the process of privatisation was turning into "something of a casino".

Of the two institutional tranches, 35 per cent was sold to Moroccan institutions, which cannot own the shares for five years, and a further 16 per cent went to Moroccan and foreign institutions. The commission which oversees privatisation operations set the minimum price per share for the two institutional tranches at Dh325, but successful bidders bought the shares at Dh425.

SNI shares have since fallen back to Dh400 as many individual buyers who bought them on borrowed money have been forced to realise their gains to

pay their creditors back. Further criticism focused on the role of the agent bank for the sale, Banque Populaire, whose back room operations were described by one City institution as a "shambles of red tape".

Faster progress in the broader aim of liberalising the management of Morocco's financial sector is handicapped by three factors: the absence of money and foreign exchange markets and hence the impossibility of currency hedging and the absence of market driven interest rates, for which the IMF has been pressing for two years.

The Banque al Maghrib, the central bank, and leading Moroccan banks are according to observers, dragging their feet because they are comfortably set in their old ways and fearful of change.

For decades, the unwritten contract between the central bank and the banks was that the latter would finance large government deficits and leave the banks to make comfortable margins on their other business. With an estimated \$500 to \$600m deficit in 1993, the government is expected to broaden the range of stocks available to investors, agencies report.

The Nairobi stock exchange currently has a capitalisation

News round-up

■ Strategy

Mr. Michael Howell, of Baring Securities, has forecast that the current bear market will be in retreat by the middle of next year, but warns that equities worldwide could fall by an additional 10 to 15 per cent over the next few weeks.

There could be two increases in US rates of 50 basis points a time early in the new year, but thereafter a slowdown in the growth of the US economy would underpin sentiment.

He recommends taking an overweight position in southern and eastern Europe, the Indian sub-continent and sub-Saharan Africa.

■ Kenya

The head of the Nairobi bourse, the largest in east Africa, has urged the government to accelerate the privatisation of state-owned enterprises and to broaden the range of stocks available to investors, agencies report.

The Nairobi stock exchange currently has a capitalisation

of \$2.2bn and is to be opened to foreign investment from January.

■ Bahamas

The Bahamas aims to launch a stock exchange in 1995 with assistance from the Inter-American Development Bank, Reuters reports.

The IADB said that the long-term intention was to harmonise the existing four Caribbean stock exchanges, and nine others in Central America. The Bahamas exchange would join ones already operating in Jamaica, Barbados, Trinidad and the Dominican Republic.

Some 10 to 12 government enterprises are expected to be privatised in the coming months in the Bahamas. The former British colony is one of the world's largest offshore banking centres.

● Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.

CURRENCIES

Markets watch Fed and Buba

Meetings of the Federal Open Market Committee tomorrow, and the Bundesbank council on Thursday, offer foreign exchanges their best possibility of enlightenment in the final days of 1994.

The only other country that might provide some pre-Christmas indication is Italy, where the lira remains vulnerable to further political setbacks. The government faces possible defeat in a no-confidence vote this week.

The dollar is probably vulnerable to a decision from the Fed to keep rates on hold into

the new year. It has risen about 5.5 per cent against the D-Mark, and 3.5 per cent against the yen, since late October.

To some extent, this appreciation has been built around the expectation of the Fed moving aggressively to curb inflationary pressures.

Following weaker than expected inflation data last week, however, expectations of the Fed sanctioning higher rates tomorrow have receded. Some observers, however, believe the odds on a move are 50:50, citing evi-

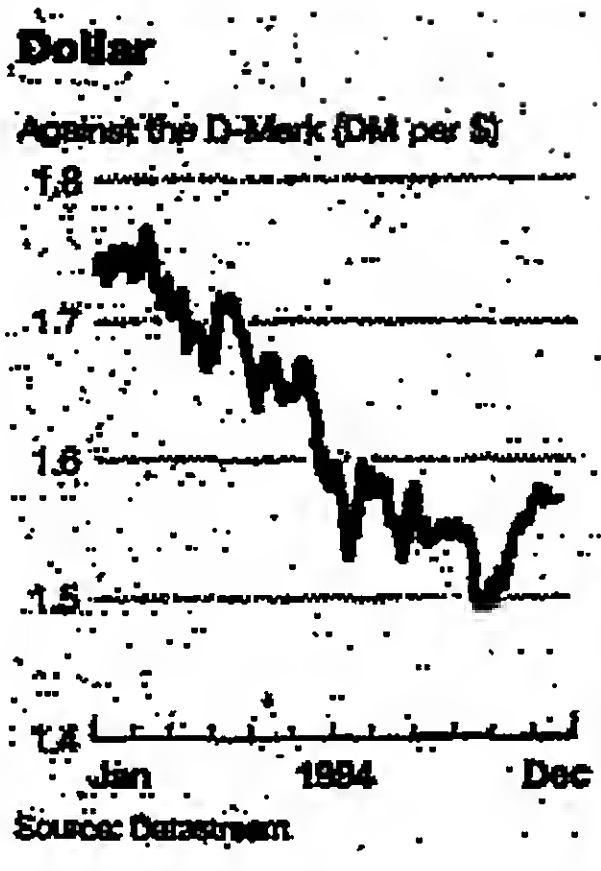
dence of strong consumer spending as a countervailing argument.

In Germany the balance of opinion overwhelmingly favours the Bundesbank leaving rates unchanged. Nothing, however, should be taken for granted. The German central bank is well known for the pleasure it takes in defying market expectations.

For the statistically minded, there is a further issue. High frequency Economics in New York points out that, on past evidence, December is the most

likely month for interest rates to be moved. Over the past 25 years, 10 of the 72 adjustments of official rates have been in December, nearly twice what could be expected.

The prospect of the Berlusconi government falling in Italy has pushed the lira to record lows recently. The confidence vote will provide markets with more to chew on. The markets appear to have discounted most bad news, but the lira could weaken further if a political hiatus threatens the normal course of government.



Source: Comptel

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 18	Closing mid-point	Change on day	Bid/offer spread	Day's mid low	One month	Three months	One year	JP Morgan
Europe	(Sd)	17.2807	-0.0023	818 - 001	17.2806	17.2825	17.2789	1.0
Australia	(Sd)	50.4503	-0.0025	975 - 011	50.4500	50.4530	50.4493	-0.6
Denmark	(DK)	6.9505	-0.0002	280 - 339	6.9508	6.9518	6.9521	0.4
France	(F)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Germany	(M)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Italy	(L)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Japan	(Y)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Netherlands	(G)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Portugal	(Esc)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Spain	(P)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Sweden	(S)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Switzerland	(Sfr)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
UK	(S)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
US	(D)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Canada	(C)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Mexico	(M)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
South Africa	(R)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
India	(Rupee)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
China	(Yuan)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
South Korea	(Won)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Japan	(Yen)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Philippines	(Peso)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Indonesia	(Rupiah)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Malaysia	(Ringgit)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Thailand	(Baht)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
South Korea	(Won)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Japan	(Yen)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Philippines	(Peso)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Indonesia	(Rupiah)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Malaysia	(Ringgit)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4
Thailand	(Baht)	16.9505	-0.0022	127 - 725	16.9500	16.9520	16.9520	0.4

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 18	Closing mid-point	Change on day	Bid/offer spread	Day's mid low	One month	Three months	One year	JP Morgan
Europe	(Sd)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Australia	(Sd)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Denmark	(DK)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
France	(F)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Germany	(M)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Italy	(L)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Japan	(Y)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Netherlands	(G)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Portugal	(Esc)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Spain	(P)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Sweden	(S)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Switzerland	(Sfr)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
UK	(S)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
US	(D)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Canada	(C)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Mexico	(M)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
South Africa	(R)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
India	(Rupee)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
China	(Yuan)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
South Korea	(Won)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Japan	(Yen)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Philippines	(Peso)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Indonesia	(Rupiah)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Malaysia	(Ringgit)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0
Thailand	(Baht)	1.0000	-0.0000	0.0000 - 0.0000	1.0000	1.0000	1.0000	0.0

WORLD INTEREST RATES

Month	Over night	One month	Three months	Six months	One year	Long term	Debt	Repo
Belgium	4%	5%	5%	5%	6%	7.40	4.50	-
France	4%	5%	5%	5%	6%	7.40	4.50	-
Germany	4%	5%	5%	5%	6%	7.40	4.50	-
Italy	4%	5%	5%	5%	6%	7.40	4.50	-
Japan	4%	5%	5%	5%	6%	7.40	4.50	-
Netherlands	4%	5%	5%	5%	6%	7.40	4.50	-
Portugal	4%	5%	5%	5%	6%	7.40	4.50	-
Spain	4%	5%	5%	5%	6%	7.40	4.50	-
Sweden	4%	5%	5%	5%	6%	7.40	4.50	-
Switzerland	4%	5%	5%	5%	6%	7.40	4.50	-
UK	4%	5%	5%	5%	6%	7.40	4.50	-
US	4%	5%	5%	5%	6%	7.40	4.50	-
Canada	4%	5%	5%	5%	6%	7.40	4.50	-
Mexico	4%	5%	5%	5%	6%	7.40	4.50	-
South Africa	4%	5%	5%	5%	6%	7.40	4.50	-
India	4%	5%	5%	5%	6%	7.40	4.50	-
China	4%	5%	5%	5%	6%	7.40	4.50	-
South Korea	4%	5%	5%	5%	6%	7.40	4.50	-
Japan	4%	5%	5%	5%	6%	7.40	4.50	-
Philippines	4%	5%	5%	5%	6%	7.40	4.50	-
Indonesia	4%	5%	5%	5%	6%	7.40	4.50	-
Malaysia	4%	5%	5%	5%	6%	7.40	4.50	-
Thailand	4%	5%	5%	5%	6%	7.40	4.50	-

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 18	BF	DK	DM	EC	L	FI	FR	GR	IT	JP	SE	UK	US	Y	Y
Belgium	(Bf)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Denmark	(DK)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
France	(F)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Germany	(M)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Italy	(L)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Netherlands	(G)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Portugal	(Esc)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Spain	(P)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Sweden	(S)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Switzerland	(Sfr)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
UK	(S)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
US	(D)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Canada	(C)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Mexico	(M)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
South Africa	(R)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
India	(Rupee)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
China	(Yuan)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
South Korea	(Won)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Japan	(Yen)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Philippines	(Peso)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Indonesia	(Rupiah)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Malaysia	(Ringgit)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298
Thailand	(Baht)	100	16.08	16.77	4.867	2.013	5.007	6.448	21.22	49.4	406.8	23.25	4.114	1.982	4.298

D-MARK FUTURES (DM) DM 125,000 per CF

Dec	Open	Settle	Change	High	Low	Est. vol	Open Int.
Dec	0.8370	0.8352	-0.0004	0.8370	0.8350	7,293	48,557
Mar	0.8374	0.8356	-0.0004	0.8370	0.8350	16,206	66,696
Jun	0.8403	0.8400	-0.0002	0.8405	0.8398	42	1,881

EURO FRANK FUTURES (DM) SF 125,000 per CF

Dec	Open	Settle	Change	High	Low	Est. vol	Open Int.
Dec	0.7822	0.7816	-0.0002	0.7830	0.7810	3,832	30,895
Mar	0.7855	0.7850	-0.0001	0.7850	0.7845	8,791	35,916
Jun	0.7888	0.7881	-0.0001	0.7885	0.7880	8	464

JAPANESE YEN FUTURES (Yen) Yen 12.5 per Yen 100

Dec	Open	Settle	Change	High	Low	Est. vol	Open Int.
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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: rise 0.0014 (3.00%) and low in a 5-day period listed below. Calls are charged at 99¢/minute chat rate and 49¢/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (1-44 71) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SUB RECOGNISED)

[illegible]

GUERNSEY (REGULATED) ()**

[illegible]

IRELAND (REGULATED)

[illegible]

(IRELAND (SIB RECOGNISED))

[illegible]

IRELAND (REGULATED) (200)

[illegible][illegible]

*Yield expressed as C.A.R. (Compound Annual Rate)

[illegible]

John Corbett Management (JCM) Ltd

[illegible][illegible][illegible]

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1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	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RETAILERS, GENERAL - Contd[illegible]

Gold	386.4	1.5	0.00	Feb 28	12.12
Silver	10.25	0.05	0.00	Feb 28	31.1
Gold Price Ft	386.4	1.5	0.00	Feb 28	31.1
Silver Price Ft	10.25	0.05	0.00	Feb 28	31.1
S&P500	6	0.2	0.07	Oct	9.93
US Gov 10	124.5	0.01	0.00	Oct	21.1
US Gov 30	124.5	0.01	0.00	Oct	21.1
US Gov 60	124.5	0.01	0.00	Oct	21.1
US Gov 90	124.5	0.01	0.00	Oct	21.1
US Gov 120	124.5	0.01	0.00	Oct	21.1
US Gov 150	124.5	0.01	0.00	Oct	21.1
US Gov 180	124.5	0.01	0.00	Oct	21.1
US Gov 210	124.5	0.01	0.00	Oct	21.1
US Gov 240	124.5	0.01	0.00	Oct	21.1
US Gov 270	124.5	0.01	0.00	Oct	21.1
US Gov 300	124.5	0.01	0.00	Oct	21.1
US Gov 330	124.5	0.01	0.00	Oct	21.1
US Gov 360	124.5	0.01	0.00	Oct	21.1
US Gov 390	124.5	0.01	0.00	Oct	21.1
US Gov 420	124.5	0.01	0.00	Oct	21.1
US Gov 450	124.5	0.01	0.00	Oct	21.1
US Gov 480	124.5	0.01	0.00	Oct	21.1
US Gov 510	124.5	0.01	0.00	Oct	21.1
US Gov 540	124.5	0.01	0.00	Oct	21.1
US Gov 570	124.5	0.01	0.00	Oct	21.1
US Gov 600	124.5	0.01	0.00	Oct	21.1
US Gov 630	124.5	0.01	0.00	Oct	21.1
US Gov 660	124.5	0.01	0.00	Oct	21.1
US Gov 690	124.5	0.01	0.00	Oct	21.1
US Gov 720	124.5	0.01	0.00	Oct	21.1
US Gov 750	124.5	0.01	0.00	Oct	21.1
US Gov 780	124.5	0.01	0.00	Oct	21.1
US Gov 810	124.5	0.01	0.00	Oct	21.1
US Gov 840	124.5	0.01	0.00	Oct	21.1
US Gov 870	124.5	0.01	0.00	Oct	21.1
US Gov 900	124.5	0.01	0.00	Oct	21.1
US Gov 930	124.5	0.01	0.00	Oct	21.1
US Gov 960	124.5	0.01	0.00	Oct	21.1
US Gov 990	124.5	0.01	0.00	Oct	21.1
US Gov 1020	124.5	0.01	0.00	Oct	21.1
US Gov 1050	124.5	0.01	0.00	Oct	21.1
US Gov 1080	124.5	0.01	0.00	Oct	21.1
US Gov 1110	124.5	0.01	0.00	Oct	21.1
US Gov 1140	124.5	0.01	0.00	Oct	21.1
US Gov 1170	124.5	0.01	0.00	Oct	21.1
US Gov 1200	124.5	0.01	0.00	Oct	21.1
US Gov 1230	124.5	0.01	0.00	Oct	21.1
US Gov 1260	124.5	0.01	0.00	Oct	21.1
US Gov 1290	124.5	0.01	0.00	Oct	21.1
US Gov 1320	124.5	0.01	0.00	Oct	21.1
US Gov 1350	124.5	0.01	0.00	Oct	21.1
US Gov 1380	124.5	0.01	0.00	Oct	21.1
US Gov 1410	124.5	0.01	0.00	Oct	21.1
US Gov 1440	124.5	0.01	0.00	Oct	21.1
US Gov 1470	124.5	0.01	0.00	Oct	21.1
US Gov 1500	124.5	0.01	0.00	Oct	21.1
US Gov 1530	124.5	0.01	0.00	Oct	21.1
US Gov 1560	124.5	0.01	0.00	Oct	21.1
US Gov 1590	124.5	0.01	0.00	Oct	21.1
US Gov 1620	124.5	0.01	0.00	Oct	21.1
US Gov 1650	124.5	0.01	0.00	Oct	21.1

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4 OR close December 16

Have you

Financial

NASDAQ NATIONAL MARKET

Gilbert West	6	389	8-4	4-1	3	+3
Schuchman 1,00	13	212	25-1	25-1	25-1	+1
CadmusCom20	19	103	16-1	15-1	18	-1
Harrison A.	21	187	8	5-1	5-1	
Mortgage	22	1414	30-2	29-2	30	
Newport Cp x LON	20	183	7-4	6-1	6-1	
Tokios Mkt	5	2638	6-1	5-1	6	+3

[illegible]

Company	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414</
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[illegible][illegible]

Corona Co	22	919	58	57	57 1/2	-1/2	Loanage Co	2	632	31 1/2	2 1/2	3	Pharmacy	26	228	17	10 1/2	10 1/2	-1/2	Wearall	8	721	10 1/2	10 1/2	10 1/2	-1/2
Corp Of A	38	787	16 1/4	15 1/4	15	-1/4	Insurance	13	647	18	15 1/2	18	Pharmatich	5	2859	7	8 1/2	8 1/2	-1/2	WhitSEA	2	131	13 1/2	13 1/2	13 1/2	-1/2
Crusader & Co	10	748	10 1/2	10	10	-1/2							Pharmatich	1	48	13	8	8	-1/2	WhitSEA	18	75	5	4 1/2	4 1/2	-1/2

[illegible]

Cytogen	2 2445	3 ^H ₁₂	3 ^L ₄	3 ^T ₈	- ₄	PioneerSp x 0.20	17	40	22 ^L ₂	22 ^L ₄	22 ^L ₆	Walsham L.	0.28	12	538	15 ^L ₂	14 ^L ₂	14 ^L ₄	- ₂	
						PioneerH	0.88	14	3122	34 ^L ₂	34	34	Whangt	0.40	18	3478	20 ^L ₂	20 ^L ₂	20 ^L ₂	- ₂

- B -	J&J Snack	14	153		12	11 $\frac{3}{8}$	12	+ $\frac{3}{8}$	Pinecrest	0.12	10	1046	15-2	14 $\frac{1}{2}$	14 $\frac{1}{2}$	-2	HFI Group	0.03	2	617	5 $\frac{1}{8}$	5 $\frac{1}{8}$	3 $\frac{1}{8}$	- $\frac{1}{2}$
	Jensen Inc.	0.26	14	49		8	8 $\frac{1}{4}$	8 $\frac{1}{4}$	Pineblk	5	377	73 $\frac{1}{2}$	67 $\frac{1}{2}$	73 $\frac{1}{2}$			Wyman-Gdn	0.40	1	388	5 $\frac{1}{2}$	5	5 $\frac{1}{2}$	+ $\frac{1}{2}$
								- $\frac{1}{4}$	Rmkt	25	186	51 $\frac{1}{2}$	45 $\frac{1}{2}$	51 $\frac{1}{2}$										

DSC On	2822463	33 1/4	32 1/2	33 3/4	+1	JLB Ind x	0.10	10	124	38	37 1/4	37 1/4	-1 1/4	Pres Life x	0.09	3	783	5.38	5	5	-1 1/4
Dart Gray	0.13	28	12	77	72	75	-4	Johnson W	18	2108	19618 1/4	18 1/4	-1 1/4	Franklin	208	832	44 1/4	43 1/4	43 1/4	-1 1/4	

																					-X-Y-Z-					
DateSwitch	37	224	2 ¹ / ₈	2 ¹ / ₈	2 ¹ / ₈	-1 ₆	Jones kit	9	192	13	12 ¹ / ₈	12 ¹ / ₈	+3 ₄	PoCost	14	8829	13 ¹ / ₈	13 ¹ / ₈	13 ¹ / ₈	-3 ₄						
Dataflex	23	88	8	8 ¹ / ₂	8 ¹ / ₂	-1 ₄	Jones Mod x0.10	10	319	7 ¹ / ₈	6 ¹ / ₈	5 ¹ / ₈		Pride Pot	19	212	5 ¹ / ₈	5 ¹ / ₈	5 ¹ / ₈		Xlrex					
																					29	2768	57 ¹ / ₈	55 ¹ / ₈	56	-1 ₄

Deltascopes	17	3053	17 1/4	15 3/4	17	+ 3/4	Jostay Co x 1.20	26	35	23 1/4	24 1/4	24 1/4	- 1/2	Printrol	26	896	38 1/4	34 1/2	35	- 1 1/4	Norma Corp	1	264	3 1/2	2 1/2	2 1/2	
Dolphin Op	100	10	831	54	23 1/2	23 1/2	- 1/4	JSB Fin	0.80	13	341	24	23 1/2	- 1/4	Prod Op	0.34	20	27	24 1/2	23 3/4	- 1/4	Yellow	0.94203	2884	22 1/2	21 1/2	23 1/2

Debt Shops	0.20243	58	5 $\frac{1}{2}$	4 $\frac{1}{2}$	4 $\frac{1}{2}$	Justin	0.29	14	263	17 $\frac{1}{2}$	18 $\frac{1}{2}$	17 $\frac{1}{2}$	+4	Purush B	0.12	10	1591	20 $\frac{1}{2}$	18 $\frac{1}{2}$	18 $\frac{1}{2}$	-8	Tark Tech	93	318	3 $\frac{1}{2}$	33 $\frac{1}{2}$	3 $\frac{1}{2}$	+8		
Default En	0.32	18	87	16 $\frac{1}{2}$	15 $\frac{1}{2}$	15 $\frac{1}{2}$	-4	Justin	0.18	8	414	12	11 $\frac{1}{2}$	11 $\frac{1}{2}$	-6	Pyramid	8	1473	11 $\frac{1}{2}$	11 $\frac{1}{2}$	11 $\frac{1}{2}$	+4	ZionsUtah	120	7	52	34 $\frac{1}{2}$	34	34	-2

FT GUIDE TO THE FORTNIGHT

19

MONDAY

EU-Turkish customs union

Foreign ministers of the European Union and Turkey meet in Brussels to discuss establishment of a customs union in 1996. Opposition from Greece and human rights campaigners will probably force a postponement of a decision for a couple of months.

Bosnia: Armed forces chiefs from 11 Nato countries concerned in the Bosnian conflict meet to consider ways of reinforcing the UN mission in former Yugoslavia. They will be joined by other interested parties, including Russia and Germany, on Tuesday.

European Union fisheries ministers meet in Brussels to sort out Spanish and Portuguese entry to Union fishing waters. Felipe Gonzalez, Spain's prime minister, will push for integration into the common fisheries policy by 1996, but the French, UK and Irish are worried about the impact on stocks.

BCCI: A settlement for creditors of the failed Bank of Credit and Commerce International proposed by liquidators Touche Ross goes before a London court.

Gulf Co-operation Council leaders, meeting in Bahrain, are expected to review their commitment to double their joint forces in the Gulf.

FT Surveys: Sweden and Czech Republic.

20-21

TUESDAY

Fed meets on interest rates

Most analysts do not expect the Federal Reserve's policy-making Open Markets Committee to raise short-term rates this side of Christmas, but a half-point rise to 6 per cent remains a possibility.

China and its main trading partners meet in Geneva to take stock of Beijing's eight-year-old application to join the General Agreement on Tariffs and Trade and its successor, the World Trade Organisation. GATT members will try to persuade Beijing to keep talking past its end-year deadline for a "substantive agreement".

De Beers, which accounts for at least 80 per cent of world trade in uncut diamonds, reveals its 1994 sales. After first-half sales of \$2.58bn, it eased back, so the total is expected to be about the same as last year's \$4.566bn.

UK parliament rises for the Christmas recess (to Jan 10).

WEDNESDAY

Italian politics: The fate of Silvio Berlusconi's embattled right-wing coalition government will be decided by a confidence debate immediately after approval of the 1995 budget. Berlusconi will be testing whether all coalition members, especially the populist Northern League, are willing to continue his eight-month-old mandate.

22-23

THURSDAY

Say when on Schengen

Ministers from seven EU states meet in Bonn to decide when the Schengen free-travel accord should come into force.

Interior ministers from Germany, France, the three Benelux countries, Spain and Portugal are expected to set March 85 as a date for the abolition of border controls, although France may request a 6-month transition period.

The Bundesbank central council is to fix 1995 parameters for German money supply growth as measured by the much-maligned but stoutly-defended M3 formula. The factors influencing the decision - permissible inflation levels and potential for economic growth - will also be weighed in the routine contemplation of interest rates, which some observers persist in believing may be reduced today.

FRIDAY

Romania's left-wing minority government faces its sixth confidence vote in two years in office. The opposition Democrat Party's motion was sparked by mass protests by thousands of unpaid workers in the western industrial town of Resita last week.

Holidays: Japan (Emperor's Birthday), European Union institutions close until Jan 2.

24-26

SATURDAY

Elections in Kyrgyzstan

Kyrgyzstan votes for a two-house legislature. President Askar Alayev was criticised for dissolving parliament in September, but his proposed constitutional reforms were strongly supported in a referendum the next month. Mr Alayev hopes the new parliament will give greater support to his economic reforms, which is backed by the International Monetary Fund.

Holidays: Sweden.

SUNDAY

Japan's new electoral system takes effect. It replaces the current 511-seat lower house of parliament, elected from Japan's unique multi-seat constituencies with a 500-seat parliament of 300 single-seat constituencies and 200 proportional representation seats, chosen from 11 electoral regions.

Uzbekistan holds its first multi-party elections since independence.

Holidays: Main markets closed for Christmas Day.

MONDAY

A Turkish court is to give its verdict on 124 Islamic fundamentalists suspected of starting a hotel fire in the town of Sivas that killed 38 people attending an arts festival.



Czechy: Boris Yeltsin goes a-wassailing

27-30

TUESDAY

US consumer confidence

The US Conference Board's December consumer confidence indicator will be scanned for signs of stabilisation after last month's 12 point-jump.

WEDNESDAY

UK economy: Chancellor Kenneth Clarke meets Eddie George, governor of the Bank of England, for their monthly discussion of monetary policy. The City thinks interest rates have further to rise, but analysts do not expect a decision so soon after December 7's 1/2 point increase in base rates to 6.25 per cent.

THURSDAY

US leading indicators for November are expected to show little change for the third month running.

FRIDAY

UK chancellor Kenneth Clarke starts a tour of Malaysia, Thailand and Vietnam to drum up business for the UK financial services industry.

Holidays: Japan (markets closed to Jan 3), Philippines.

31-1

SATURDAY

Treuhand shuts up shop

Germany's Treuhand privatisation agency, the world's largest holding company set up in 1990 to privatise east German industry, ceases operations. With more than 13,000 enterprises originally on its books, the agency has either sold off or shut down the region's industry. In all, it raised DM160bn (\$102bn) from investment guarantees and will save 1.5m of the 3.5m pre-1990 industrial jobs.

SUNDAY

Brazilian presidency: Henrique Cardoso (left) takes office. Mr Cardoso, of the Social Democratic party, was elected on October 3 and is expected to push for economic reforms to consolidate the success of the Real currency in cutting inflation.

Compiled by Patrick Stiles.
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Measures coming into effect on January 1 1995

The World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, is launched. Gatt will continue for a one-year transition period.

Mercosur: A customs union comprising Argentina, Brazil, Uruguay and Paraguay is due to come into being. It may develop into the nucleus of a South American Free Trade Area.

Andean Pact countries, Bolivia, Colombia, Ecuador, Peru and Venezuela, enter into their own free trade agreement.

Japan initiates a partial opening of its rice market, allowing 4 per cent of consumption to be supplied by imports.

European security: The Conference on Security and Co-operation in Europe (CSCE), which comprises all European and Commonwealth of Independent States countries and the US and Canada, changes its name to Organisation for Security and Co-operation in Europe (OSCE). This is part of an effort to upgrade the body into an umbrella organisation for European security.

European Union expands: Austria, Finland and Sweden join. The Union's territory will grow by a third, its population by 6 per cent and its GDP by 7 per cent. Norway's voters rejected membership in a referendum in November.

Austria, being rich, will have to contribute some Sch30bn (\$2.7bn) to the EU's coffers this year, aggravating a budget deficit of 5 per cent of GDP. About a third of the money comes back as adjustment payments to farmers because the Common Agricultural Policy takes immediate effect.

Consumers are the big winners, not only on food prices, but also on many service costs where protectionist walls must come down. The Austrian National Bank is joining the European Monetary System immediately and will probably join the Exchange Rate Mechanism in short order. The schilling is rigidly pegged to the D-mark, so these moves will have no noticeable effect.

Sweden and Finland, neutral Nordic neighbours who kept their distance from western Europe during the Cold War, step into the Union hoping membership will consolidate their recovery from deep recession.

Both will become net contributors to the budget; consumers should benefit from lower food prices as trade barriers fall, but Finland's highly subsidised farmers are braced for a painful adjustment to the EU's lower farm prices. Both countries are signing up for the EMS, but intend to float their currencies for the time being.

France takes over the rotating six-month presidency of the European Union from Germany against the back-

ground of campaigning for domestic presidential elections due in May.

Free-trade agreements between the EU and the three Baltic republics, Estonia, Latvia and Lithuania, are due to come into effect. They are a first step towards eventual accession.

European Medicines Evaluation Agency opens shop in London. A pharmaceuticals licensing body for medicines marketed in more than one European Union country, it should streamline drug approvals.

Euro-gobbledygook: Britain's Plain English Campaign, which crusades against obscure bureaucratic language, has said it will turn its attention to Brussels-speak. Its Inside Write campaign is to monitor internal publications.

Germany's second Financial Markets Promotion Act, the legislative mainstay of a project to bring Finanzplatz Deutschland up to international standards in areas such as regulation and supervision, comes into force. Centrepiece is a ban on insider trading with five years' jail as the maximum punishment.

First victims of the legislation have been the traditional "fire-sale chats" - informal pre-Christmas meetings between management and hand-picked journalists at which sensitive full-year results data were formerly

dished out as liberally as the beer and sausages.

Cost of unity: German taxpayers face a 7.5 per cent solidarity surcharge on income tax to help pay for the integration of former East Germany into the country.

UK employers' liability insurance policies, which provide cover against workplace deaths and injuries, renewed from today will no longer offer unlimited cover. Insurance companies have imposed a basic claims limit of \$10m.

UK commission disclosures: Under a new regime imposed by City regulators, life insurance and pensions sales agents and advisers will have to give customers more information about the policies they sell and the costs of selling them.

Last gasp: Australia extends its anti-smoking provisions. There will be a ban on advertising smoking materials, except limited point of sale material, and on the use of brand names for promotional purposes. Packaging must bear larger health warnings.

The US's Delta Airlines begins a smoking ban on all its flights.

Century of cinema: The cinema has decided to declare 1995 its 100th birthday in a year-long celebration around the globe. Paris in December 1995 saw the first audience buy tickets for the first public moving picture show in a disused ballroom.

ECONOMIC DIARY

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Dec wh/sale price index (1st 10 days)	-	0.0%	Thur	US	M2 w/e Dec 12	\$5bn	-\$1.5bn
Dec 18	Australia	Nov merchandise imports	4.2%	2%	Dec 22	Japan	Oct coincident index	70%	60%
Tues	US	Oct trade - goods & services	-\$10bn	-\$10.1bn	(cont)	Japan	Oct leading diffusion index	60%	54.5%
Dec 20	US	Oct goods & services export (BOP)	\$80bn	\$59.7bn		UK	3rd qtr gross dom prod (final)**	4.2%	4.2%
	US	Oct goods & services import (BOP)	\$70bn	\$69.8bn		UK	3rd qtr real disposable income**	-	1.2%
	US	Oct trade - goods (BOP)	-\$14.8bn	-\$14.8bn		UK	3rd qtr savings ratio	-	9.3%
	US	Johnson Redbook w/e Dec 17	-0.6%	-0.6%		UK	3rd qtr balance of payments	-	-594m
	Japan	Oct-overseas pers consum expend**	-0.1%	2%	Fri	US	Nov durable orders	1.5%	-1.5%
	France	Oct industrial production**	0.2%	-0.4%	Dec 25	US	Nov durable shipments	-	-1.2%
	France	Oct manufacturing production**	0.3%	-0.8%		US	Nov personal income	0.2%	1.4%
	UK	Nov M4*	0.4%	-0.1%		US	Nov pers consumption expend	0.6%	0.7%
	UK	Nov M4**	3.8%	3.8%		US	Dec Michigan sentiment index	-	87.7
	UK	Nov M4 lending	22m	21.8m	During the week...				
	UK	Nov bdp only net new comml	22.8m	22.8m		Germany	Nov wholesale price index**	0.1%	-0.3%
	Canada	Oct retail sales*	0.6%	-		Germany	Nov producer price index**	0.1%	1%
Wed	US	Nov treasury budget	-\$82bn	-\$82bn		Germany	Nov M3 from 4th qtr base	6.4%	6.8%
Dec 21	France	Nov consumer price index final*	-	0.3%		Germany	Oct trade balance	DM2bn	DM1.8bn
	France	Nov consumer price index final**	-	1.7%		Germany	Oct current acc	-DM4bn	-DM5.5bn
	France	Oct trade balance*	FF77bn	FF8.2bn		Germany	Dec cost of living index**	2.8%	2.7%
	UK	Nov trade ex-EC	-2375m	-2401m		Germany	Nov import prices**	1.8%	1.8%
Thur	US	3rd qtr gross domestic prod final	3.9%	3.9%		Italy	Oct producer price index**	-	0.7%
Dec 22	US	3rd qtr GDP, deflator final	1.9%	1.9%		Italy	Oct wholesale price index**	-	4%
	US	3rd qtr after corp tax profit	2.8%	2.8%		Italy	Nov M2, three-monthly savings**	3.8%	3.8%
	US	Initial claims w/e Dec 17	322,000	323,000		Spain	Oct producer price index**	4.2%	0.4%
	US	State benefits, w/e Dec 10	2.42m	2.42m					
					Month on month, *year on year; **seasonally adjusted			Statistics, courtesy MMS International	

*Month on month, **Year on year, seasonally adjusted. Statistics courtesy MMS International.

Other economic news

Tuesday: The twice-yearly economic outlook from the Paris-based Organisation for Economic Co-operation and Development will give an upbeat view of economic prospects for the OECD's 25 industrialised member states over the next two years. Governments will be urged to maintain prudent policies to secure steady growth with low inflation.

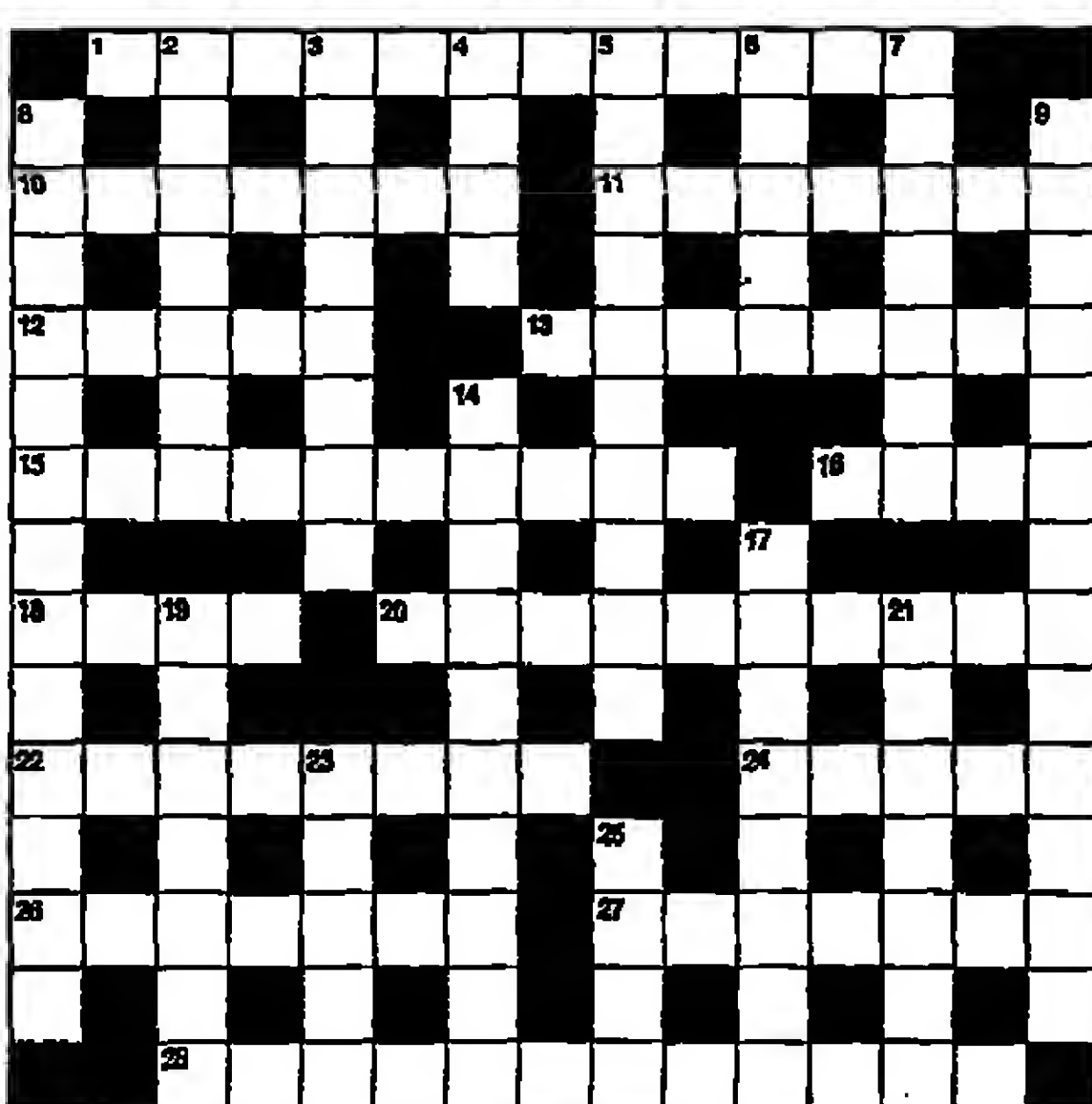
Wednesday: Britain's trade with countries outside the European Union is expected to show some improvement in November. The City consensus points to a deficit of \$375m after October's mildly disappointing shortfall of \$410m.

Thursday: UK third-quarter balance of payments figures will attract more attention than usual because some analysts believe the fall in the UK visible trade deficit to a near 10-year low in the three months to end-September could presage current account equilibrium or surplus.

During the week: German M3 growth is expected to slow further in November. However, the consensus forecast of 6.4 per cent annualised growth from the base in last year's final quarter would still be above the 4 per cent to 6 per cent target range.

- ACROSS**
- One exploiting people is looking round the back for it (12)
 - Waited near hospital, unused to journalist (7)
 - Spear provided free in marquee (7)
 - Tense redhead and friend (5)
 - Old lady in issue One's settled abroad (8)
 - Painter where you might find peep? (10)
 - Girl's love for idol (4)
 - Scuttle round concealed from gangster (4)
 - Hardy fell backwards after a vault (10)
 - Brown accepts ICI work before becoming optometrist (8)
 - They cling on when one struggles (5)
 - Candidate takes one running round colliery (7)
 - Take control; start performing live (7)
 - Wrongly portray miser dancing here (12)

- DOWN**
- Abused vicar lied badly (7)
 - Army draft endlessly training somewhere contrived? (9)
 - Orderly missing a day after it turned up (4)
 - Optician as to time in organisation (10)
 - Not without noticing it's freezing (5)
 - Explosive device taken round in French class (7)
 - Complete even if going round or working (13)
 - Turns to steam trains for a job? (13)
 - Against even appearing curiously to tubridge (10)
 - Rows with poor Gus about repulsive quality? (8)
 - Best spinning top, one mother finds (7)
 - View inside bulb is very good (7)
 - Ice-creams being cold one starts shivering (6)
 - Knocks up box (4)



MONDAY PRIZE CROSSWORD

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A prize of a Pelikan New Classic 390 fountain pen for the first correct solution and five runner-up prizes of 25 Pelikan vouchers will be awarded. Solutions by Thursday December 29, marked Monday Crossword 8,640 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday January 2.

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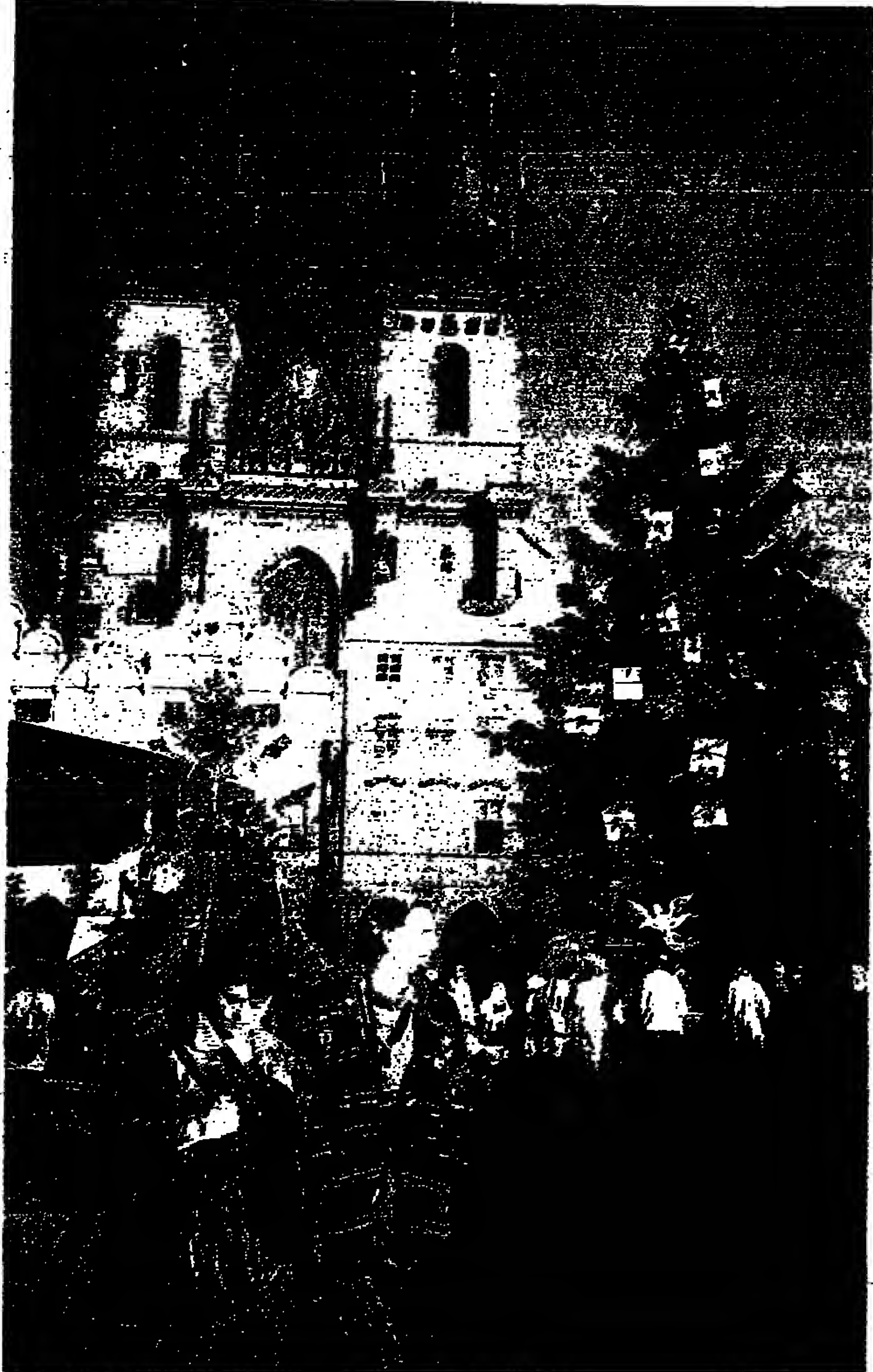
JOTTER PAD

CZECH REPUBLIC

Monday December 19 1994

A pro-business government has achieved political stability while maintaining economic growth, writes Anthony Robinson

Towards a state of grace



Prague's Old Town Square gets ready for the Christmas festivities

Anthony Robinson

The inter-war Czechoslovakia which is preserved in sepia photographs and the still modern buildings of its avant-garde architecture was a prosperous, bourgeois democracy in the heart of Europe; it was a normal country. The post-communist Czech Republic, divorced from Slovakia since January 1993, is well on its way back to that state of grace.

Keeping the new state on the straight and narrow path of recovery is a pro-business government headed by an abrasive, opinionated, but undoubtedly clever, man. In style and substance, Mr Vaclav Klaus, the prime minister, far more closely resembles his political idol, Britain's Margaret Thatcher, than any of his counterparts elsewhere in a central Europe released from Soviet bondage only five years ago.

Alone among post-communist politicians, Mr Klaus manages to combine clear and unequivocal public statements about the virtues of hard work, private enterprise and free markets with a subtle manipulation of the state budget to ease the pain of transition and keep the electorate on his side.

"The government will not subsidise or bail out bankrupt companies. It is prepared to act as a catalyst for change or to share in restructuring costs, but then all involved - the government, creditors and the enterprise itself - have to sacrifice something," says Mr Jiri Wajgl, the prime minister's chief adviser.

Not everyone is impressed. Mr Milos Zeman, who leads the main non-communist opposition grouping, the social

democrats says: "Klaus was fine for the first, restrictive phase. His time is over. The problem is that he does not know it yet."

But neither, it seems, does an electorate which voted heavily for Mr Klaus in the June 1992 elections and reconfirmed its support by backing candidates linked to his party, the Civic Democratic party (ODS), in last month's local elections. Opinion polls also continue to give him and his party top rating. Barring accidents, Mr Klaus, a 52-year-old macro-economist, looks well set for another term in office as head of a coalition government after general elections scheduled for mid-1996.

The economy is his strong point. As finance minister he masterminded the economic reform strategy which came into effect in January 1991, a year after the pioneering "shock therapy" Polish reform programme. Whereas Poland faced hyper-inflation and was saddled with a \$42bn foreign debt, Mr Klaus inherited a decaying but cautiously managed economy with relatively little debt and stable prices.

While Poland and Hungary became bogged down in complicated, government-managed privatisation schemes Mr Klaus, contemptuous of the capacity of governments or bureaucracies to manage enterprises, boldly struck out on a two-stage mass privatisation programme.

The results have been spectacular. By early next year, around 80 per cent of the economy will be at least partially privatised. At that point the fate of the Czech

economy will be largely in the hands of enterprises and the managers and investment funds set up to exercise corporate governance on behalf of more than 7m small shareholders.

The most painful part of micro-economic readjustment at the enterprise level is probably about to begin. Hundreds of former state-owned enterprises have already shed up to half their bloated workforces and disposed of assets. But few have actually closed or been forced into bankruptcy. The bankruptcy and related laws are on the statute book, but the courts are inexperienced in commercial matters and overloaded.

The pace of bankruptcies should rise sharply in the new year, and so, temporarily, should unemployment. The jobless rate is currently around 3.5 per cent nationally, but far lower in the Prague region where around 80 per cent of GDP originates. Increasingly, influential policy makers such as Mr Josef Trosovsky, the central bank governor, argue that without a labour shake-out from dying companies, the pace of economic recovery risks being stunted by labour and other shortages.

The difficulty lies in convincing Mr Klaus that the political fall-out will be less than feared, provided policy makers concentrate on removing bottlenecks to growth in what is already an expanding economy. This means difficult decisions in politically sensitive areas, such as raising public utility tariffs and rents so as to encourage labour mobility by freeing up the property market.

Mr Klaus has already shown

he can be stubborn in such matters. After months of work by bankers and lawyers, he turned down flat a plan to build a toll motorway from Heidelberg to Prague when he found that the tolls would have to be so high that only German motorists could afford them, but not Czechs on an average monthly wage equivalent to about \$250.

For all the razzmatazz about the market economy, Mr Klaus is acutely aware that daily life remains a struggle for most of the 10.3m Czechs, while the fruits of change as yet are being enjoyed by a fairly thin, albeit highly visible, stratum of society. His delicate political antennae have helped ensure that, unlike elsewhere in the region, the Czech communist party stands no chance of returning to power in a new guise. The communists retain electoral support among the old and those nostalgic for the old social safety net and easier work practices. But the majority continue to share the optimism shown by Mr Klaus about the future.

There are blemishes on the record. One is the prime minister's constant humiliation of President Vaclav Havel, who is in many ways a far more representative figure of the traditionally tolerant, sceptical, bucolic and somewhat shambling Bohemian of popular stereotype than the austere, rather Germanic, Mr Klaus. Another is the Czech approach to the civil rights of an uncomfortable minority within their ranks - the country's nearly 250,000 gypsies, many of whom were rendered stateless after the divorce from Slovakia.

Increasingly however, the Czech Republic is being perceived, along with Poland, as the economic success story of central Europe. Of that region, it is the most prepared country for entry into the European Union.

Foreign capital has been flowing into the republic in embarrassing amounts. Reserves have risen virtually to equal the nation's foreign debt. The credit rating agencies give it investment grade listing, Czech companies and banks have been welcomed back to international capital

IN THIS SURVEY

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- ☐ Foreign investment: Reassessment after setbacks Page 3
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Editorial production: Gabriel Roeman and Sarah Murray

markets while the government is repaying its own loans at a fast clip.

Above all, the economy is expanding again while the budget remains balanced and inflation is dipping towards single digits. The Czech Republic is closer to complying with the "convergence criteria" laid down by the EU Maastricht summit than most of the EU's current members, and is more politically stable, too.

Mr Klaus, in an elegant overcoat and carrying a silver-topped cane, looked at least the equal of his western counterparts at the EU summit in Essen earlier this month. He has clear views on the future shape of an enlarged Europe and on the errors of Europe's current policies. Prague did not break free from Moscow only to fall under the thrall of centralising, socialistically inclined Brussels, he tells the west. He also blames excessive social security costs for Europe's high unemployment and loss of global competitiveness.

Until now, western Europe has liked to view itself as the senior party when advice was required. The Czech Republic under Mr Klaus has become the most forcible advocate in former communist Europe of the need for a genuine dialogue. Both sides will probably benefit from the exchange.

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CZECH REPUBLIC 2

The Czechs have managed better than most to shift from a command to a market economy while maintaining macro-economic stability through the transitional recession. The issue for next year and beyond is how far and how fast the owners and managers of the newly privatised enterprises can raise efficiency against a backdrop of resumed economic growth and rising foreign reserves and investment.

The government likes to boast that 80 per cent of the economy will be in private hands once the second round of mass privatisation is concluded early next year. It exaggerates. The state retains majority stakes through the national property funds in what socialists used to call "the commanding heights of the economy" - energy, steel, telecommunications and the like.

What is more, the still indirectly state-controlled commercial banks themselves control hundreds of the newly privatised enterprises through their ownership of most of the top 10 investment funds which have sprung up over the past three years.

The revamped state-owned banks still control about 80 per cent of banking business and have received large-scale state aid in order to clear their balance sheets of inherited bad debts. They still have to prove their efficiency as risk assessors and capital providers to

The main economic indicators						
	Unit	1990	1991	1992	1993	1994
Real industrial growth	%	-1.2	-14.2	-6.6	-0.3	2.2
Industrial production*	%	-3.5	-24.4	-10.6	-5.3	1.2
Consumer prices†	%	9.7	58.7	11.1	20.8	10.2
Unemployment rate‡	%	0.8	4.1	2.6	3.5	3.2
Convertible exports	US\$m	4,868	5,816	7,850	10,006	10,200
Convertible imports	US\$m	4,820	5,476	8,222	10,504	11,100
Convertible trade balance	US\$m	-252	340	-1,372	-498	-900
Convertible current account balance	US\$m	-127	1,186	53	279	637
Foreign direct investment	US\$m	0.3	0.8	1.3	2.3	2.5
Convertible external debt	US\$m	-	-	7.5	8.7	8.7
Official foreign exchange reserves	US\$m	-	-	0.8	3.8	5.4
Debt ratio	Years	-	-	0.5	0.3	0.4
Interest service ratio	%	-	-	5	4	5
Official gold reserves	m ounces	-	-	1.95	1.95	1.95
Exchange rate vs US dollar‡	CZK	28.0	27.8	26.8	30.0	27.7

* = Until 1991: companies with more than 100 employees. From 1992: companies of all sizes. † = Change over previous year (annual average). ‡ = At end of period. § = Until 1992: Czechoslovak koruna (CSK). Source: Deutsche Bank Research

Anthony Robinson and Vincent Boland on economic prospects

Raising efficiency is vital

private business.

The banks insist that they have erected Chinese walls between their banking and fund management activities. Independent fund managers are not so sure that the state banks would be willing to take painful bankruptcy decisions, for example, if the net result was to expose their own bad loans to the company concerned.

Economic policymakers also face some difficult decisions in the new year if they are to

satisfy demands for clarity on the future tariff structures of public utilities. Last but not least, the recent inflow of foreign funds into the country also demands action if the Czech Republic is to maintain macro-economic stability and progress towards full convertibility for the Koruna and argue that policy should concentrate on removing labour, housing and other physical bottlenecks to faster, investment-led growth.

The government, which means the prime minister himself as the ultimate decision-maker, is more cautious. With elections due in mid-1996 at the latest, ministers fear the electoral fall-out from over-hasty moves to raise utility tariffs or radically reduce the security of

tenants in low-cost apartments. Construction was the first sector to pick up, with a 20 per cent rebound in 1993 as the new owners of shops and apartments refurbished and modernised property restored to them as previous owners or bought at auction.

But broader signs of an economic upturn appeared only in May this year, fuelled by rising industrial and construction activity and a surge in tourism and other service industries, including banking and finance.

Gross domestic product is expected to expand by 2.5 per cent in 1994, after four years of declining output and incomes accompanied by far-reaching structural changes in the economy.

Next year the CNB forecasts GDP growth of 3 to 4 per cent while Mr Václav Klaus, the prime minister, told parliament in early December that the 1995 budget estimates were predicated on a 3.3 per cent rise.

The pace of growth will

depend partly on the performance of the German economy, and partly on how the government decides to use the capital inflows that are currently being absorbed by the CNB's open market operations and domestic bond issues.

So far, most of the foreign capital inflows have been in the form of hard currency credits by overseas banks to Czech enterprises. The loans have been used to finance the purchase of capital equipment or for working capital, on terms cheaper than those available from Czech banks.

The inflows are reflected in the Czech Republic's trade statistics, which show that import growth was much higher than the 13 per cent dollar increase in exports in 1994, leading to the virtual elimination of last year's trade surplus. With gross tourist revenues running at more than \$1.5bn over the first nine months of 1994, the overall current account is expected to show a surplus of about \$600m in 1994.

But if the government opts for a strategy of investment-led growth next year, the most likely result would be a substantial trade deficit, although again the high rate of tourist and other invisible earnings

Despite Prague's free market rhetoric, it remains actively involved in big strategic investment projects

should allow for a surge in imports without pushing the current account of the balance of payments into deficit.

The government has agreed to consider higher energy prices from next year, but the proposed increases, averaging about 12 per cent, have not satisfied producers. CEZ, the electricity monopoly, says it will lose money on domestic customers even with the price rises.

A test of the government's attitude to higher utility prices

will come when it formulates a price structure for SPT Telecom, the national telecommunications company. The state is selling 27 per cent of SPT to a foreign investor and the new structure will have a crucial bearing on the price to be paid

Formulating a price structure for SPT Telecom will test the government's attitude to higher utility prices

for the state. The overall aim is to "rebalance" prices, raising domestic call charges while lowering international charges, currently among the highest in the region. It is a delicate political and commercial balancing act.

Despite the government's ceaseless free market rhetoric, it remains actively involved in big strategic investment and privatisation projects such as Skoda/VW and the choice of strategic partners for SPT and the petrochemical industry.

Both telecom and petrochemicals are billion-dollar projects that are designed to bring key industrial and service sectors up to international standards.

That task is relatively easy and will follow well-trodden paths. The principal challenge in 1995 will be to raise the level of managerial skills and efficiency in thousands of privatised former state enterprises across the country.

Where the strategic vision has succeeded is in ensuring that this is no longer a job for the government but for Mr Klaus's army of new shareholders, investment funds, managers and workers. They now hold the fate of most Czech enterprises in their own hands. Good corporate governance is the need now and will decide how the economy as a whole shapes up in preparation for full membership of the EU early next century.



The prime minister (l) with Sir Evelyn de Rothschild as N.M. Rothschild and a Czech bank official (r) (see p4)



LOCATION

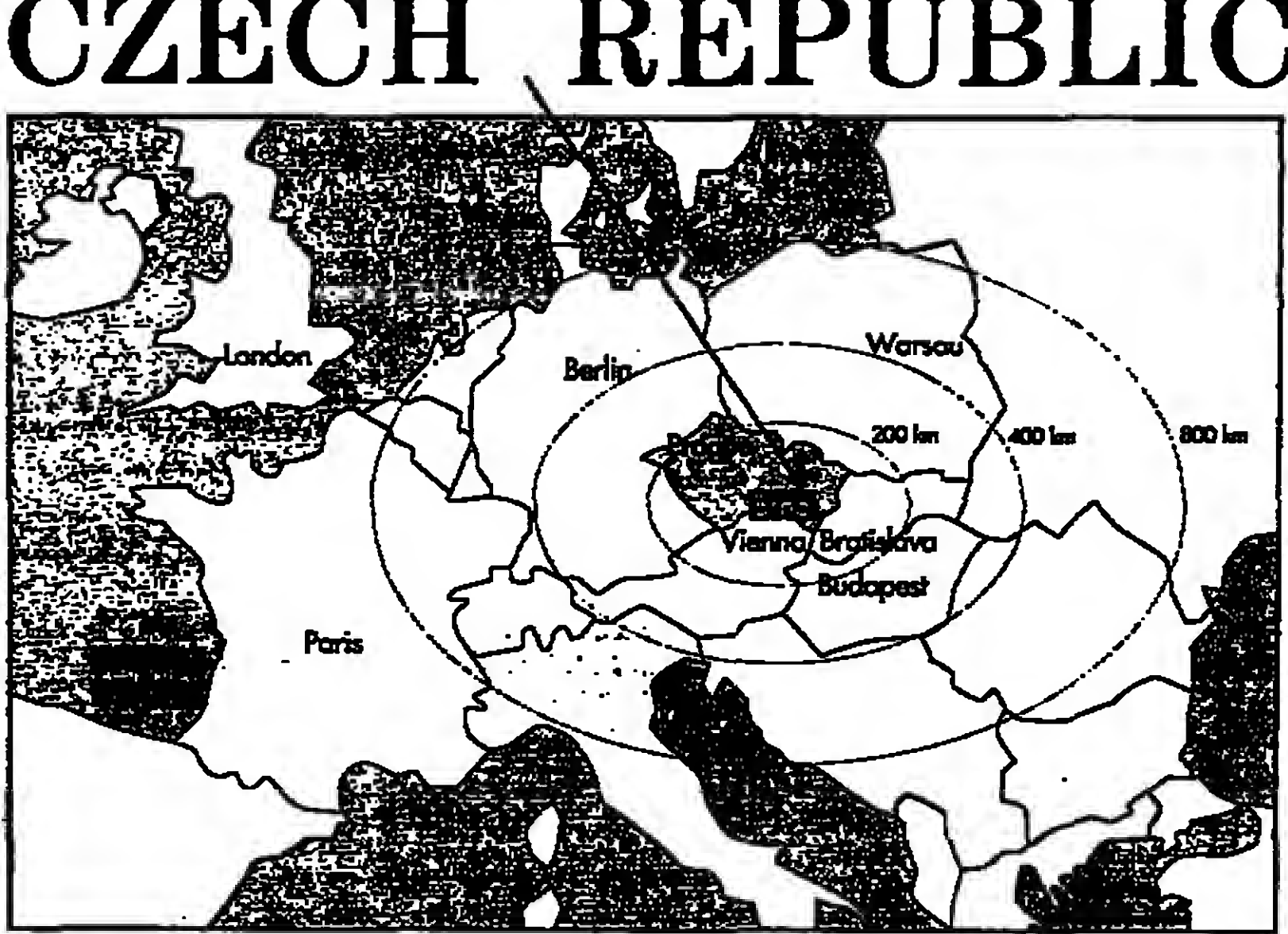
Brno is the historic capital of Moravia and the second largest city in the Czech Republic. Home to nearly 1/2 million people, the city is superbly situated in the heart of central Europe. 200 km South East of Prague, Brno is only 130 km from the capital cities of both Austria and Slovakia and 180 km from the Polish border. The city serves a region of more than 2 1/2 million people.

COMMUNICATIONS

Brno is located at the centre of the regional road network enabling direct motorway access to Prague, North East towards the Polish border and South to Bratislava and Vienna. There is an international railway station and airport, both of which are due to be extended and improved. Brno also offers digital telecommunications and is soon to be linked into Europe's fibre optic network.

ECONOMY

Brno has a long industrial tradition dating back to its years as powerhouse of the Austro-Hungarian Empire. As a result the city has Central Europe's largest trade fair ground and VUT, the Czech Republic's finest technical university. Today the city is home to a host of high technology and engineering-related businesses who benefit from the supply of skilled labour and the excellent location. Companies such as ABB, Siemens and K-Mart have all invested heavily in the area.



DEVELOPMENT

Several initiatives are currently underway from both the public and private sectors to satisfy the growing demand for business accommodation in Brno: Czech Technology Park is a \$ 200 million development on the Northern Ring Road and a Development corporation "South Centre Brno" has been established to regenerate 100 hectares of land adjacent to the historic core. Infrastructure works in South Centre will commence next year.

For further information please contact:

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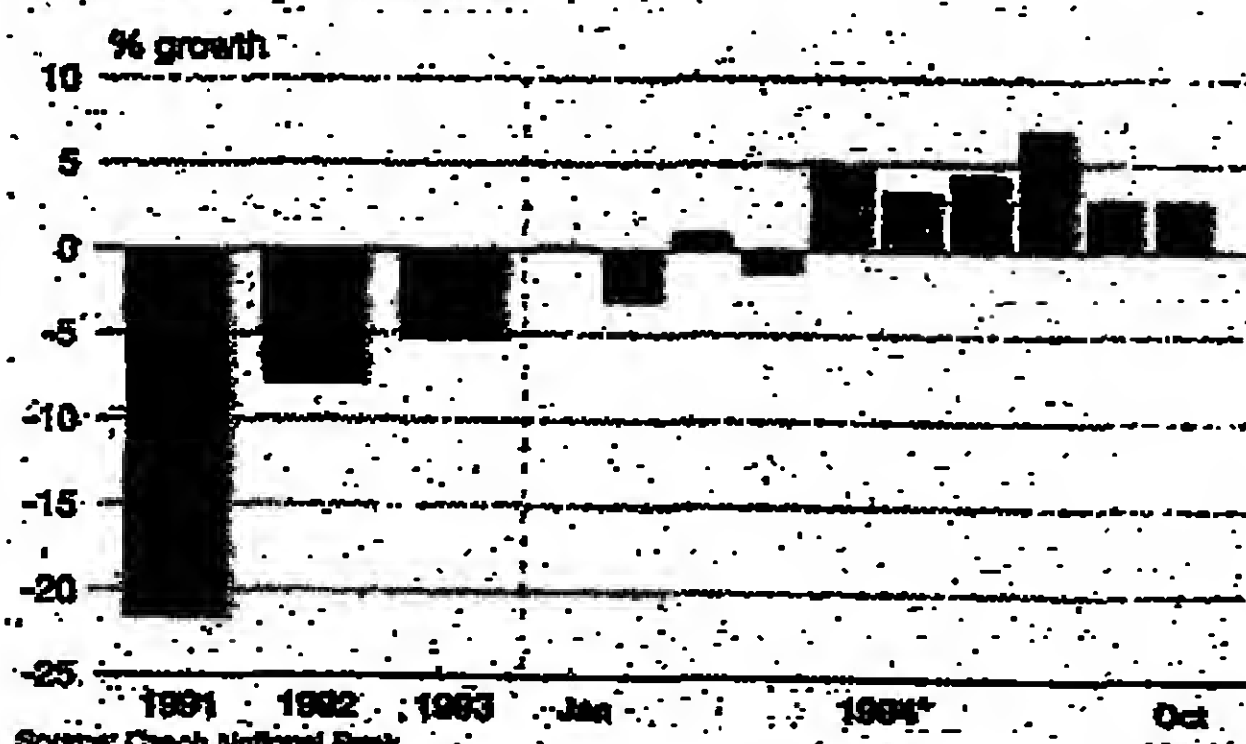
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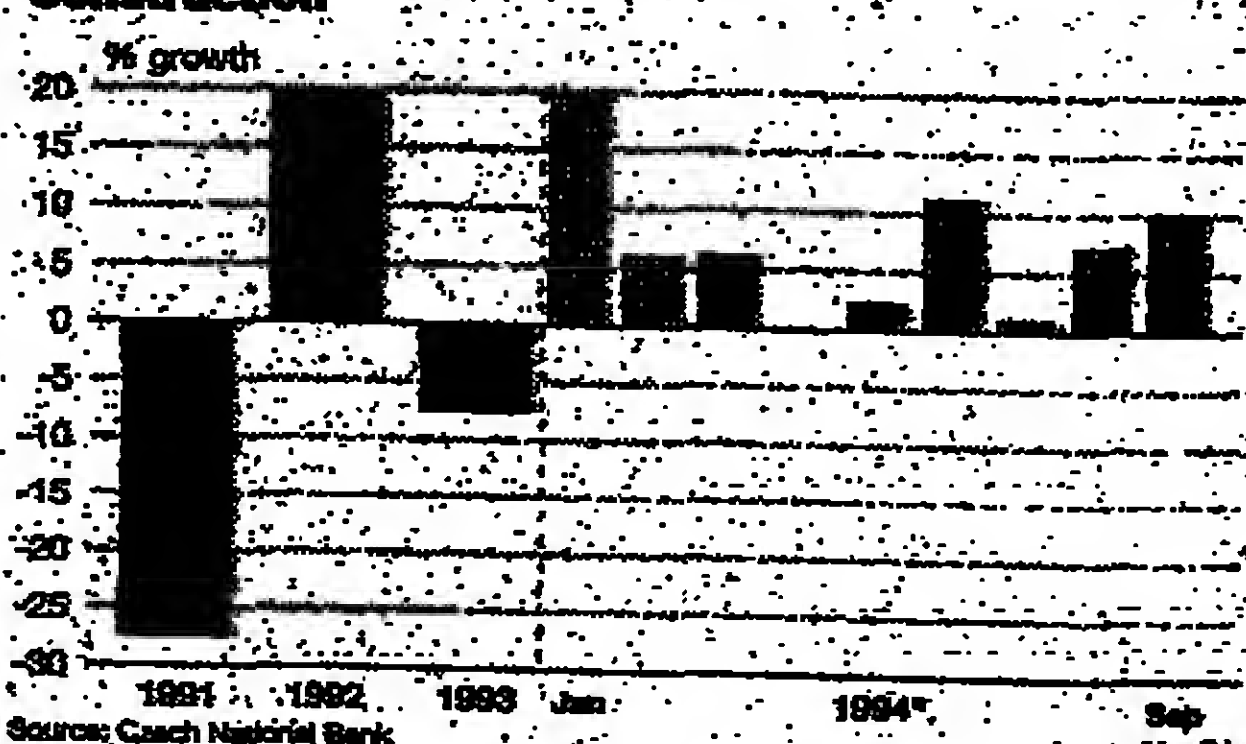
Mr. Michal Štěl
Chairman of Board of Directors
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Industrial production



Construction



Reserves grow

Relatively high interest rates and the prospect of Koruna revaluation in the event of full convertibility keep foreign funds flowing in. Every day for the past few months, the CNB has been buying foreign currency at the regular 11am forex fixing session, writes Anthony Robinson.

So far this year, it has drained \$3.4bn of liquidity from the markets, pushing reserves up to \$5.6bn by early December. This is after repayment ahead of schedule of International Monetary Fund loans totalling \$1.07bn. Reserves in the banking system as a whole, at about \$8.3bn, are roughly equivalent to a quarter of the estimated \$35bn gross domestic product for 1994.

This means that at the end of its second year of independence, the Czech Republic is essentially free of foreign debt. Psychologically, that is gratifying, especially after the initial worry prompting the central bank to borrow abroad to bolster reserves shortly after the January 1993 divorce from Slovakia.

But the inflows, much of which are speculative, have disturbing implications for money supply and inflation control. The CNB is struggling to keep inflation for 1994 within its target of 10 per cent. Mr Josef Tošovský, governor of the CNB, warns: "It will be much harder to reduce inflation to 8 per cent in 1995 against a background of rising economic growth."

The official rhetoric is triumphant. Privatisation in the Czech Republic is complete, victory declared. A programme of mass asset sales for vouchers covers 1,500 companies. According to the government, once shares from the second and final wave of sales are distributed in February, 80 per cent of the economy will be in private hands.

But while Czech privatisation has been broad, a question remains over how deep. Privatisation has broken the mythical cord between the state and enterprises. Managers are now to a large extent free of governmental interference.

Fears that mass distribution of shares would leave owners, each with a tiny fragment, impotent have proved unfounded. About two-thirds of Czechs participating in the mass privatisation scheme entrusted their vouchers to special investment funds. These can take stakes of up to 20 per cent in individual companies.

In the second wave of mass privatisation alone, 349 funds and about 2m individuals bid for shares, but the 15 largest institutions picked up 40 per cent of what was on offer leaving share ownership more concentrated than in the UK or US.

While managers have proved surprisingly responsive to their new owners the funds

While official declarations talk of the success of the privatisation programme, a number of problems remain

Czech sell-off broader than it is deep

themselves seem unsure of what to do with their sudden power. The few western-controlled funds behave like their western counterparts, but most are passive. Attempts to revamp management often run into opposition from the largest domestic funds. ZB-Trust, a subsidiary of a German-Czech bank, says it initiated shake-ups but could never gather sufficient support from other shareholders.

Institutional investors in the UK or US, while rarely forcing management changes, do drop the shares of companies with which they are unhappy. The large Czech funds do not. "The majority of funds are very bureaucratic," says Mr Tibor Nemes, director of the capital markets department of Ceska Sportelna. "Call me in a week after our investment committee meets and then we can decide," they say.

Lack of experience is part of the problem. Mr Nemes talks dismissively of "so-called fund managers" and says: "They are not fund managers, they have no experience."

Another explanation is that fund managers are not primarily interested in pleasing their

investors. The fee structure for Czech fund managers encourages them to increase the worth of the holdings they control, but not necessarily the return to shareholders. Standard fees are 2 per cent of net asset value a year.

But there are many other ways of making fund management pay. At one extreme are the fraudsters that use their control to enrich themselves with little regard for shareholders. But some respectable fund managers also charge

obscure "management fees".

A more serious concern is that three of the top four fund managers are subsidiaries of state-influenced Czech banks. "You take a company controlled by government and you sell to a bunch of funds controlled by banks controlled by government," says Mr Harvey Schuster of Corus, a Czech-American fund.

Government and banks deny that commands pass down this chain. But the banks' dual roles of lender and owner,

through their funds, are confused, although they maintain that Chinese walls divide the parent company and its fund management subsidiary.

Mr Alex Angell of brokers Wood & Co suggests a conflict of interest exists. "Large banks' funds have been using their influence to maintain banking links with the parent company," he says. Bank funds may also be reluctant to file for bankruptcy and force a write-off on the lending arm. Banks have brokerage as well

as fund management subsidiaries. The temptation is to milk the fund management unit through excessive brokerage fees.

However, none of this detracts from the broad success of the Czech Republic's mass privatisation. Abuses by fund managers occur in countries with far longer traditions of stockmarket capitalism.

There is, moreover, a tradition of compromise in Czech business life. The passivity of the voucher funds may reflect

that as much as encourage it. "Czechs are much more likely to sit round a table than to pull the trigger," says Mr Daniel Arbess, a partner at lawyers White & Case.

The Czech economy is still evolving. The dominance of funds may be a transitory phase. Already some western investors have bought them out in order to take control of Czech companies. Welsh Water's acquisition of a Czech water utility is a good example. Shares in SPT Telecom, the telecom utility, are due to be distributed only next February in the second wave but New York hedge funds and Swiss private investors have already engaged in futures contracts to buy shares allocated to privatisation funds.

It becomes harder to cast voucher privatisation as a mere restructuring of public ownership. Banks, the owners of fund managers, are moving into private ownership as they make rights issues to build up their capital base.

Fund managers are themselves improving under the discipline of the market. ZB-Trust is the best regarded of the Czech bank funds. "We want to

be a professional investment company. Not just for voucher privatisation. We want to be good because we plan products in the future and we want to build up a track record," says Mr Alex Barabas, member of the board of parent Zivnotenska Banka.

The ultimate market discipline for fund managers is the threat of takeover. "They are like any manager of any business; if it can be taken over they are going to care more," says Mr Richard Wood, managing director of Wood & Co.

The threat is there. Funds are worth less than the sum of their parts. Out of 18 funds followed by Wood & Co, 11 trade at discounts of more than a half to net asset value. Wood & Co is trying to identify a small fund and help take it over for a demonstration effect that would revitalize investment in all funds. "That would be a theatrical event," says Mr Wood. "Once people see that it can happen discounts would decrease dramatically."

Some fund managers have foreseen takeover bids, however. The Harvard fund management group - run by controversial entrepreneur Victor Kozmeny - has instituted a "poison pill" arrangement that makes it all but impossible to seize its funds. The Czechs have adopted the tricks of capitalism as well as its nobler principles.

Nicholas Denton

Activist funds are in charge

Critics of Czech voucher privatisation feared that managers, freed of state control, would answer to no one but themselves. Some activist investment funds have shown that is not necessarily the case, writes Nicholas Denton.

Creditanstalt Investment Company, a subsidiary of the Austrian bank, has seats on the management boards of about 30 of the 70 companies in which it holds shares. When it was unhappy with the managing director of a hotel and spa company in Marienbad, it gathered the support of two other funds and brought in a younger man. The Harvard Group, run by Mr Vic-

tor Kozmeny, the controversial entrepreneur who thought up the first fund, even succeeded in changing the chairman of Ceska Sportelna, the savings bank.

Shareholder activism has its sunnier side, too. Creditanstalt and fellow institutional shareholders gave the management of a Moravian brewery a 10 per cent stake on easy terms.

If none of this works, the institutions have a final resort. "If we like a company but not the management we seek other funds; if they don't agree to changes we sell," says Mr Nigel Williams, chairman of Creditanstalt Investment Company.

Managers are aware that the funds control their fate. Corus, a Czech-American investment company, manages a holding in a Moravian brewery. Mr Harvey Schuster, its chairman, says: "When the manager comes to Prague, he's a bit jumpy. He wants to make sure we're friends."

Yet Mr Schuster reckons that Czech managers after four years of capitalism, pay more attention to shareholders than their US counterparts. "They are sometimes too sensitive," he says. "When someone says he owns 20 per cent of the shares, the manager still thinks he is like a commissar or from the ministry."

Nicholas Denton on the SPT Telecom offer

The \$1bn draw

Hungary's telecom company Matav has been sold to Deutsche Telekom and Ameritech; Poland still appears uncertain about how to conduct its telecom privatisation. "The timing for the Czechs has been impeccable," says Ms Goffin.

SPT Telecom has its own special attractions. The Czech Republic is home to eastern Europe's most successful economy and must carry SPT with it. "Telecoms have to do well because otherwise they won't turn around their industrial sector," says Harvey Schuster, chairman of Corus, a Czech voucher fund that has invested heavily in SPT.

Investors believe the company is well managed. Operating profit in 1993 was \$66.5m (\$230m). The company has little debt and will have still less: the winning western consortium will take its 27 per cent stake through a capital increase. The Czech budget is in rough balance; so all

the proceeds will go to SPT, none to the government.

The concern of investors is an unusual one: SPT's gearing is too low rather than too high. "They won't have to borrow a cent for two to three years," says one adviser.

Even the company's failings have silver linings. Line density at 20 per 100 inhabitants is low by western standards. Waiting lists are still high at 600,000. But frustrated demand offers the potential for rapid revenue growth. Labour turnover is high at about 20 per cent per annum. This leads to rising salaries but it also makes cutting back the labour force easier.

One problem is the Czech Republic's distorted phone tariff structure. International calls are among the most expensive in Europe while local calls are the cheapest at about US6c for unlimited time. The government is unwilling to raise charges

sharply ahead of elections in 1996.

The group most likely to win will be the one which can promise the most rapid development. The target is to double the number of lines by the year 2000 at a cost of about \$1.3bn. Only large-scale investment will ease widespread criticism of the telecoms company. "We are public enemy number one," says Mr Makovec of SPT. "No other company is so unpopular."

Attacks come not only from the general public. SPT's international switch is overloaded and businesses are stepping up their criticism. "Lines are getting worse. They've hooked up so many that you can't get through," says Andrew Reicher, outgoing general director of investment bank CS First Boston in Prague.

France Telecom cites its experience in transforming a backward telephone network to one of the world's most modern in the space of a decade. But most of the companies competing are technically up to the task. SPT will have to bear Italy's often unjustified reputation for broken lines but it is likely to compensate for that by bidding high.

Bell Atlantic, France Telecom and KPN all have the advantage of longstanding links with SPT. France Telecom and Deut-

sche Telekom suffer the handicap of state ownership. Deutsche Telekom and Ameritech will find it difficult to promise the Czech Republic any role as a regional hub for telecommunications traffic after having done so already in Hungary.

But the deciding factor may be nationality. The Czech government's view of French state companies has been soured by Air France's unsuccessful investment in CSA, the Czechoslovak airline.

A leading role for Deutsche Telekom would reinforce Germany's economic influence, already uncomfortably large, over a country it occupied in the second world war.

Moreover, a sale to a state-owned company would hardly be the privatisation in which the Czech government believes so strongly. France Telecom and Deutsche Telekom are addressing these concerns. Each led its respective consortium in Hungary. In the Czech Republic they are taking a back seat to their US partners.

Whichever western consortium comes out on top, SPT and the Czech Republic are bound to be winners. All the conditions are present for a bidding war. "It is going to take a billion dollars or more to walk away with it," says an adviser.

RESTRUCTURING AND EMPLOYMENT

The pace needs to quicken

As an economist, Mr Karel Dyba, minister of the economy and an old friend of Mr Václav Klaus, the prime minister, likes tackling questions such as "Is it possible to restructure a socialist economy without either large-scale bankruptcies or heavy unemployment?"

For most of the post-communist states, plagued with double digit unemployment and idle factories, the answer has proved negative. But the Czechs, partly through good fortune but mainly through astute political and economic footwork, appear to have pulled off the trick.

Sceptics argue that Czech full employment is largely an illusion, with government-enforced low pay allowing enterprises to keep under-employed workers on the payroll rather than unemployment lines.

Alternatively they claim that Czechs have low unemployment because they have hardly started the painful micro-economic surgery on former state-owned enterprises which has led to mass lay-offs in seriously reforming states such as Poland or Hungary. Bankruptcies to date have been few and far between and mainly limited to small companies.

Mr Dyba has little time for such criticism. Without changes at the enterprise level, it is impossible to sustain macro-economic stability, he argues. "Our experience shows that speed is better than searching for perfection. We have moved from zero to 80 per cent share of privately-owned enterprises in five years. But this has been accompanied by dramatic struc-

tural changes.

"Employment in the farm sector, for example, has fallen by 50 per cent. The fastest growth has been in the service sector, especially tourism and financial services."

Countering accusations of slow change in the formerly bloated state-owned industrial enterprises - artificially biased towards heavy industry and the Soviet market, he reels off the manpower reductions in the largest five state-owned enterprises.

The economy minister answers his critics, in an interview with ANTHONY ROBINSON

"The biggest employer of all, the Czech railways, shed 30 per cent of its former 165,000 workers between 1990-93. Škoda Plzeň, the biggest engineering conglomerate, lost 43 per cent, the OKD coal mines shed nearly half their workforce, the Vítkovice steel plant lost a further 28 per cent and the telephone monopoly SPT shed 13 per cent," he says.

But Mr Gabriel Eichler, chief financial officer of CEZ, the electricity corporation, which has slimmed its workforce from 16,000 to 12,000 in three years, says that with wages so low the real improvements in efficiency have come elsewhere. "At CEZ labour represents only 2.6 per cent of total costs. In our case, the real improvement has come through a 500 basis points

reduction in our average borrowing costs through tighter financial management."

Few companies are as capital-intensive as CEZ. The general pattern has been for loss-makers to be slimmed down rather than closed. Few workers have been sacked. Most have just walked away from low-paid, boring jobs and found new employment in the booming construction, hotel and catering, retail and distribution, banking, tourism and other sectors. A growing number have become self-employed or work for the fast-growing private start-up companies.

The Czechs are slower, more cautious and less entrepreneurial than the Poles, who have taken to capitalism like a duck to water. But the country now boasts a growing number of private companies and entrepreneurial business types.

The rate of job creation in the private sector is such that labour shortages and rapid labour turnover are now a growing concern. Mr Jan Havalka, head of Czech invest, the government's inward investment promotion agency, says that one in five Czechs changed his or her job last year. As a result the Prague region, where 60 per cent of the GDP is produced, has turned into a magnet for foreign workers, especially Ukrainians, Serbs and other escapees from the Yugoslav imbroglio.

The real question for Czech economic managers is not how to preserve employment and social peace but how to speed up the liquidation of hopeless enterprises so as to free labour for more productive use in sectors now facing skill shortages.

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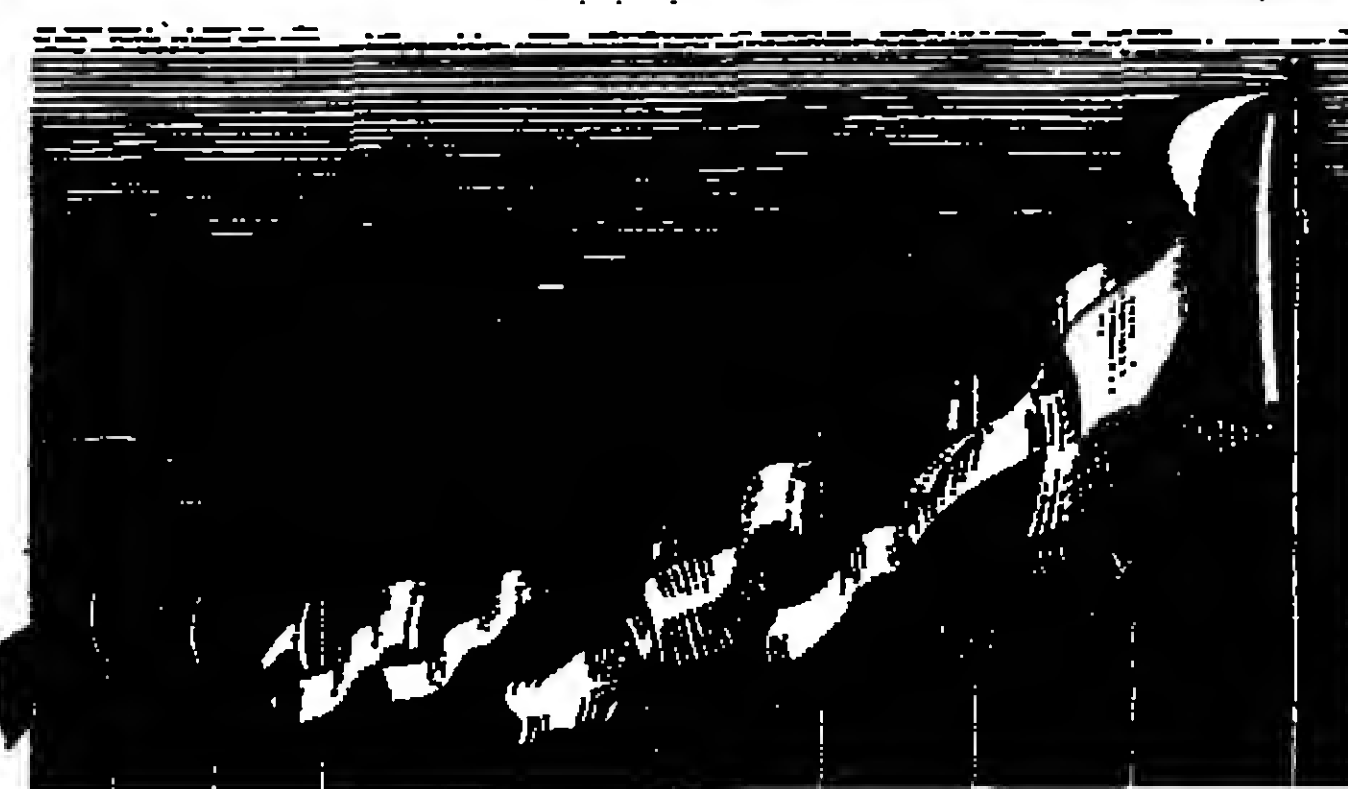
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■ FOREIGN INVESTMENT

Setbacks lead to reassessment

The Czech Republic's political stability and a consistent economic policy, pursued by a group of technocratic politicians with the zeal of true converts, has made the country a favourite of foreign investors.

The government of Mr Václav Klaus has created a pro-reform consensus that has seen markets deregulated, state enterprises wholly or partly sold off, and the completion of a huge privatisation programme that has turned the Czechs into a nation of budding bourgeois capitalists.

One of the rewards has been the granting of coveted investment grade status to the country by the international ratings agencies. The Czech Republic is rated BAA3 by Moody's and BBB-plus by Standard & Poor's.

Since 1990, and especially since 1992 when Mr Klaus became prime minister, foreign buyers have taken substantial stakes in the country's automotive, tobacco, food and construction industries. A

France from Czechoslovak Airlines. Air France and the European Bank for Reconstruction and Development each bought 19.1 per cent stakes two years before in a \$60m investment. After a lot of haggling, an exasperated government bought out the French stake and began looking for Czech backers to provide support for the heavily indebted airline.

These setbacks, and controversy over the future of the petrochemical industry, have led many Czechs to reassess the merits of foreign investment. The country's success in other areas of economic reform, especially in coupon privatisation, sent expectations soaring, but the foreign investment controversies were a blow to national pride.

There could be danger ahead. "We are now in a period of euphoria over our own success - we risk overestimating our own capabilities," says Mr Jan Havelka, chairman of Czechinvest, Western bankers in Prague dismiss the notion that the Czechs can complete the task of restructuring without foreign capital. Huge areas of the economy, including such industries as banking, brewing, energy, mining and metallurgy, are heavily undercapitalised and unable to finance restructuring on their own.

Investment has been attracted without offering tax breaks or other incentives - an approach that has paid off

total of \$2.7bn in foreign direct investment was committed by the end of September this year, with expectations of \$5bn by the year-end. This is less than half the levels seen in Hungary, where privatisation has moved much more slowly, but more than Poland, which has four times the population but is seen as more politically unstable.

Significantly, the Czech Republic has attracted this level of investment without offering tax breaks or other incentives. On the contrary, "Why should we subsidise foreign companies to compete unfairly against Czech companies?" Mr Klaus provocatively asks those who urge such measures. It is an approach that is paying off. Czechinvest, the agency for foreign investment, says that serious foreign investors appreciate the absence of incentives, seeing this as further evidence of the government's commitment to the law of the market.

The biggest and most crucial foreign investor to date is Volkswagen, which bought 31 per cent of Skoda, the Czech carmaker, in 1991. Europe's biggest carmaker is due to raise its stake to 70 per cent by the end of 1993. Confirmation of the eventual handover of control to Volkswagen was agreed this year after a difficult renegotiation of the original 1991 agreement. This followed the German carmaker's embarrassing abandonment of earlier plans to invest up to \$m in Skoda by the end of the decade.

Other big investors include Philip Morris, which spent \$420m buying 80 per cent of Tabak, the Czech tobacco monopoly, and modernising production at its Kuma Hora facility; BSN and Nestlé. The latter bought into Cokoladovna, a confectionery maker, in a joint venture in 1992 and now controls the company. Another big investor is ABB, the Swiss-Swedish engineering giant, which employs 6,000 people in Brno, the country's second city, in a range of power engineering and electronics products ventures.

US multinationals have also been substantial investors in the fast food and consumer goods sectors, but investment is not confined to the household names. Earlier this year, for example, the small US pharmaceutical group Ivax bought majority control of Galena, the second biggest pharmaceutical company.

Success is now bringing new problems for foreign investors. Czech attitudes, especially in political and business circles, have altered as company managers come to terms with the mechanics of restructuring. Some high profile deals with foreign investors have come spectacularly unstuck.

The trigger was Volkswagen's scaling back of its plans for Skoda, which threatened to make the Czech venture a mere sideshow in the Volkswagen group and cause large-scale redundancies at its Mlada Boleslav plant. Putting a brave face on what has undoubtedly been a severe embarrassment for the government, Mr Vladimir Dlouhy, the trade and industry minister, defends the renegotiated agreement, though its terms have not been revealed. In hindsight, he says, the original deal was too optimistic. "There were mistakes on both sides in signing the original agreement," he adds.

The Volkswagen setback was followed in March this year by the withdrawal of Air

France from Czechoslovak Airlines. Air France and the European Bank for Reconstruction and Development each bought 19.1 per cent stakes two years before in a \$60m investment. After a lot of haggling, an exasperated government bought out the French stake and began looking for Czech backers to provide support for the heavily indebted airline.

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A big test of the new mood towards foreign investment will come early next year when the government decides on a strategic partner for SPT Telecom, the telecommunications company in which the state is selling a 27 per cent stake for around \$1bn.

The deal is shaping up to be the biggest one-off investment yet in the country, as well as the biggest telecoms deal in eastern Europe. Mr Karel Dyba, the economy minister, is overseeing the tender and has promised to run an open and transparent process, partly to restore a commitment to foreign investment and partly to shake off allegations of shady dealing in earlier privatisations where transparency took a back seat.

Away from the big deals, some private Czech companies are looking to raise new capital directly by wooing international institutional investors. Mr Ivo Luvinský, head of CS First Boston in Prague, says foreign investors are looking increasingly at emerging industries such as media and entertainment rather than at established sectors which still have much restructuring ahead of them.

An additional factor that will enhance the Czech Republic's attractiveness as an investment location may come about as early as next year when the koruna, the national currency, is expected to become fully convertible. The Czech National Bank is pushing for the move early, but is

facing opposition from Mr Klaus. The currency, widely considered undervalued, is expected to jump against the dollar and D-mark in the event of full convertibility, hurting the country's booming exports in its newly won and valuable western European markets. "Czech goods compete on price, not on quality," says Mr David Švejcha, head of treasury at Bayerische Vereinsbank in Prague.

Large inflows of speculative capital attracted by high interest rates and the chance of koruna appreciation sent the money supply soaring to 20 per cent by October and are threatening to push inflation above the CNB's target of 10 per cent for the year. This type of capital inflow, with its destabilising potential, has received the particular wrath of the government.

Mr Klaus is understood to want to leave the question of convertibility until after general elections in 1996. By then, the proposed sale of the SPT Telecom stake and a potential \$700m investment in oil refining by a consortium of Shell, Agip, Conoco and Total will have been decided.

Future attention is expected to focus on the hundreds of newly privatised and start-up companies which are in desperate need of fresh capital and good management to turn the promise of privatisation into a reality. Potential investors are now scouring the provincial towns and villages for hidden jewels whose turnaround will be profitable for them, and good for the continued health of the economy.

Vincent Boland

Communists in general, and Comrade Stalin in particular, were obsessed with steel. It was an obsession that lumbered former Czechoslovakia with dozens of smoky steel plants, and an enormous industrial restructuring problem when communism fell.

The Czech Republic alone has over 20 steel and metallurgy companies, and many will not survive. Vitkovice, the republic's largest integrated steel and engineering complex, is determined to be one that will pull through. Mr Jaroslav Dusilek, Vitkovice's finance director says bluntly: "We will not close down."

Two years ago, he was not so sure. Like much of Czech heavy industry Vitkovice, based in Ostrava, northern Moravia, had drawn up a reconstruction plan which relied heavily on government funding. But soon after the June 1992 elections, the new government, headed by Mr Václav Klaus, made it abundantly clear that such companies would have to swim along without the aid of a government life-raft.

Vitkovice, which has to produce at an optimal level of 1m tons of steel and core products to survive, was forced to jump in at the deep end. It has already shed 16,000 employees since 1989 and its current workforce of 23,000 is targeted to fall to 18,000 by the end of the decade. While reducing the labour force, mainly through voluntary retirement, it is also planning to reduce its dependency on steel production and boost its engineering division.

The company has invested Kč1.5bn a year since 1992, much of it on a Kč2.4bn continuous slab caster to modernise steel production. But it is also saddled with heavy environmental costs, currently Kč200m annually, to reduce hazardous discharges and waste.

Mr Dusilek claims that Ostrava, a bleak industrial city of 340,000 people dominated by the sprawling Vitkovice plant, is "cleaner than Prague". Yet neither is particularly clean, though better than they were in communist times when ecological concerns were not an overriding factor.

Steel production currently accounts for 56 per cent of Vitkovice's total output, but is scheduled to decline to 45 per cent by 2003, according to a new strategic plan which has just hit Mr Dusilek's desk. The company's main product is hot rolled thick plates used in shipbuilding and boilers. It also makes long products such as seamless tubes used by the oil industry.

Its engineering division, which currently accounts for 30 per cent of total production, concentrates on marine crankshafts, of which it claims to be one of the two leading world producers with 16 per cent of the global market. It also makes components for nuclear power plants, and was the main supplier of such products to Soviet-designed reactors until 1989.

Since the collapse of Comecon, Vitkovice has had to fight hard for new markets. This has inevitably brought it into conflict with western steel producers, which invoked anti-dumping clauses to restrict exports of seamless tubes and other products to European Union markets.

Mr Dusilek denies allegations that Czech and Slovak steel makers, and seamless tube producers in particular, are guilty of



A factory in Uherský Hradiště

■ STEEL INDUSTRY

Vitkovice is afloat without a life-raft

dumping products in the EU. When lower labour costs and depreciation are excluded, "all our costs are at international market levels," he says.

The biggest proportion of Vitkovice's output is still consumed by local engineering industries. But the company now exports 47 per cent of total production, of which 55 per cent goes to the EU, mainly Germany, and a third to Slovakia.

Until the collapse of communism 30 per cent of the company's production, mainly engineering products, was exported to Comecon markets, with the rest sold domestically. The great difference today is that its new customers pay for what they receive. Vitkovice lost Kc1bn in 1993 after being forced to write off unpaid debts by former Soviet customers.

Meanwhile, Vitkovice is benefiting from the end of the recession in the steel industry worldwide which is pushing up export prices and volumes. Profits this year are expected to reach Kč400m. In the 10 months to October, it reported turnover of Kč1bn and sales of Kč12.7bn, of which Kč3bn was exported.

Rising profitability is essential if the company is to earn enough to complete its restructuring plans. Much of Czech heavy industry is still largely state-owned, but the recently completed second wave of coupon privatisation included blocks of shares in many "difficult" industries, including steel.

Vitkovice was included in the wave, with almost 25 per cent of the company's shares sold to private investors. Another 5 per cent is owned by the city of Ostrava, which depends on the company for its own survival. The state retains two-thirds.

Vitkovice has tried to woo a partner among western steel companies, and hired UBS Phillips & Drew in 1992 to draw up an "information memorandum" to sell the

company's divisions to potential investors, including British Steel and Thyssen.

That move coincided with the worst of the recession in the world steel industry, and so far there have been no takers. Vitkovice is now trying to secure long-term co-operation agreements which may include an equity partnership. It is hoping that the improved international outlook for the steel industry will help.

What potential investors will be buying into is the Czech Republic's third biggest company, with a colourful past and a potentially prosperous future as industrial growth resumes, provided it can complete its modernisation while its low cost base gives it a price advantage.

It may be the only steel company in the world to have been founded by an archbishop. In 1828 Rudolf Jan, archbishop of Olomouc in central Moravia, built a smelter in Vitkovice, which was then a tiny village. Jan was a member of the Hapsburg dynasty, and owned ore mines in Sweden and coal mines in the Ostrava region.

The plant was bought in 1949 by a branch of the Rothschild family, and remained in their hands until it was seized by the Nazis in 1939. The state of Czechoslovakia settled with the Rothschilds in 1947, so that Vitkovice was not subject to restitution after the Velvet Revolution.

Earlier this month, the Rothschild family resumed its severed connection with the Czechs when Sir Evelyn de Rothschild came to Prague to sign a joint venture agreement between N.M. Rothschild and Československá Obchodní Banka. For Vitkovice such agreements could anger foreign investor interest even in sectors such as steel, where the future looked so bleak three years ago.

Vincent Boland

INTEREST RATES SKYROCKET 800% IN CZECH REPUBLIC

There's been a surprising rate of interest in the Czech economy from foreign investors of late. In fact, the flow of foreign investment into the country has increased by 800% in the last three years alone.

The reason for this foreign interest, can be attributed primarily to the Republic's remarkably stable business environment. During 1994, inflation was halved to 10%, unemployment remained around 4% and in the last year, GDP has grown by a healthy 2.5%.

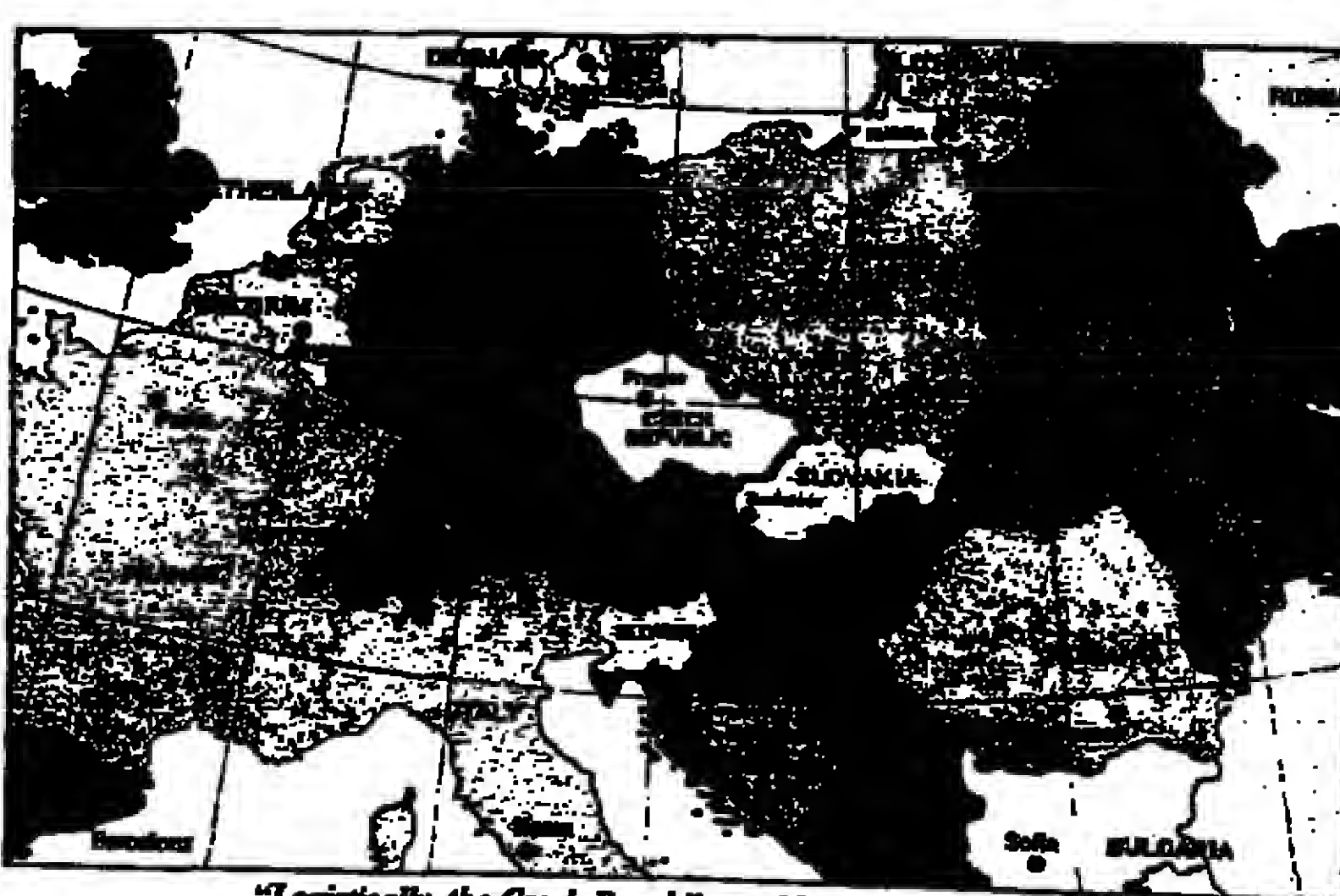
Even their currency, the Czech crown, has consistently gained in value against the US dollar.

But, perhaps of greater interest, is Moody's upgrading of the Czech Republic yet again, from Baa 3 to Baa 2. A strong endorsement of the country's continued economic and political stability.

A highly skilled, cost-effective workforce is also a notable characteristic of the Czech market. Heavy investment in the education system has helped create a highly qualified labour force with, incidentally, a higher proportion of science and engineering graduates than leading OECD countries. Furthermore, with average wages, in the automotive industry for instance, up to 18 times less than their

"But, perhaps of greater interest, is Moody's upgrading of the Czech Republic yet again, from Baa 3 to Baa 2."

location of the Czech Republic and its cost-effective workforce are the key benefits driving the increasing interest in foreign investment. To help maintain this momentum and assist new entries into this



"Logistically, the Czech Republic couldn't be better placed."

German neighbours, the cost efficiency of the Czech workforce is of great interest to foreign investors.

Logistically, the Czech Republic couldn't be better placed. It lies literally in the centre of Europe, with ready access to the Western, and emerging Eastern, markets.

Clearly, the strategic location of the Czech Republic and its cost-effective workforce are the key benefits driving the increasing interest in foreign investment. To help maintain this momentum and assist new entries into this

lucrative market, Czechinvest was created. Czechinvest's primary aim is to meet the needs of "greenfield" and strategic joint venture investors by liaising closely with other government departments and regions and by providing essential information for effective investment appraisal.

If you are interested in obtaining more detailed information on the investment opportunities of the Czech Republic, contact Jan Amos Havelka, Chief Executive, Czechinvest, Politických vězňů 20, 112 49 Prague 1, Czech Republic. Telephone (422) 240 63 022, Fax (422) 242 21 804.



CZECHINVEST

At first glance, banks in the Czech Republic radiate good health.

Three of the largest, Komerční, Obchodní and Investiční, recently broke the emerging markets equivalent of the four-minute mile. They raised or are raising syndicated loans internationally at less than one percentage point over the London interbank rate, much less, at a spread of 65-70 basis points.

These low borrowing rates owe much to the international reputation of the Czech economy. But the banking system itself takes some of the credit. The Czech Republic dealt early with the overhang of bad loans.

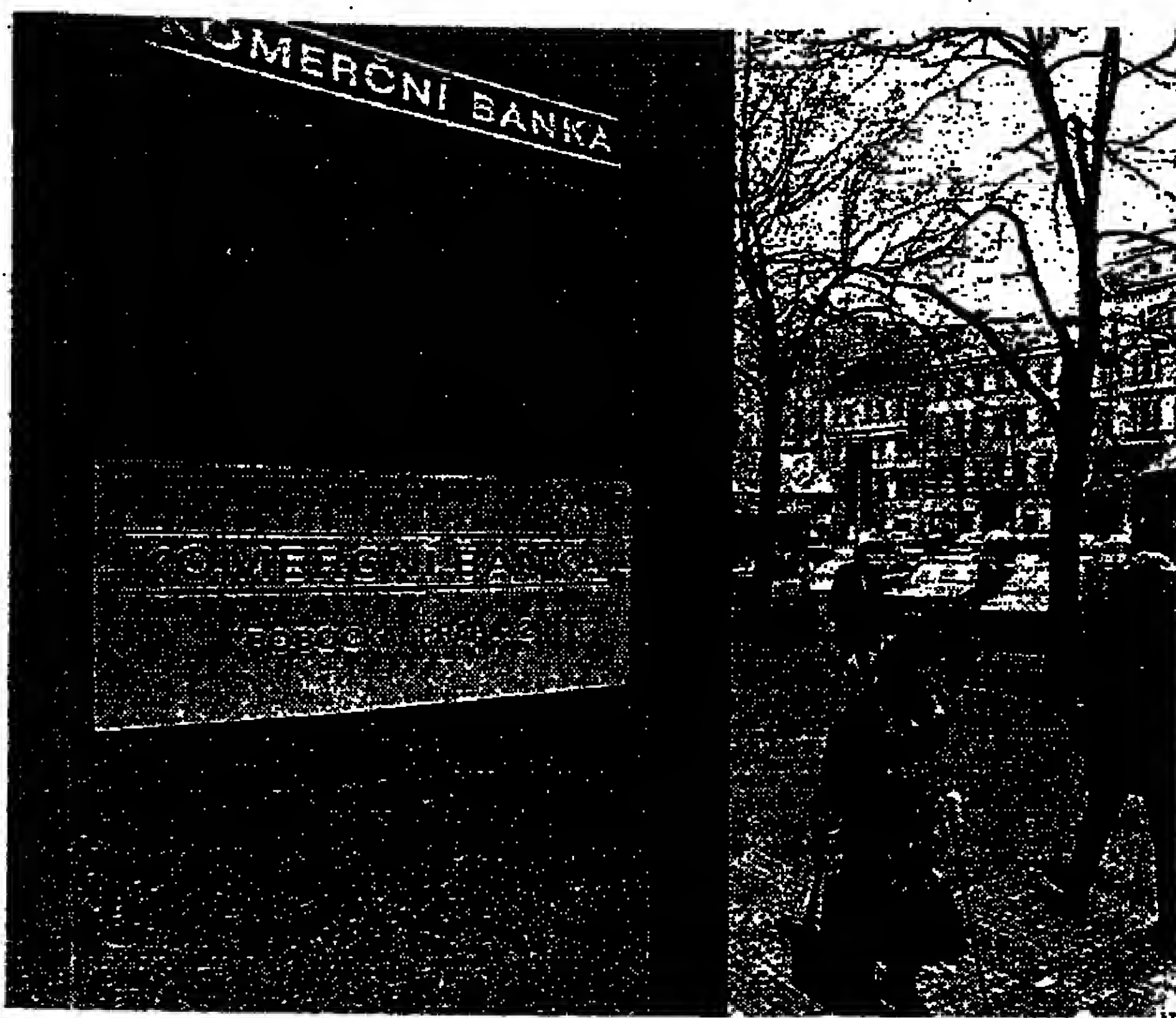
From 1991 on, banks hived off bad loans into a new institution, Konsolidací Banka. They cleaned up their balance sheets before the problem overwhelmed them. The central bank said their capital should exceed 6.25 per cent of assets by the end of 1993 and the banks have met the target.

Czech banks are in confident mood. Komerční and Investiční, corporate bankers, and the savings institution Česka Spořitelna began with specialist roles but each is invading the others' patches with gusto. Komerční has completed an energetic expansion of its branch network and Investiční has bought into one by taking over Postovní, the post office bank. Spořitelna is seeking to build a leading capital markets business on its cheap funding base.

They follow less the example of the Anglo-Saxon lenders and more the powerful universal banks of neighbouring Germany. Their fund management companies have also grown through voucher privatisation and have made the banks indirect investors, as well as lenders.

Influence on the board through seats held by fund management companies has safeguarded banks' leading relationships, some believe. Mr Alex Angell of brokers Wood & Co says: "That's why you see so little capital markets and corporate finance activity in this market. Czech banks want to keep the business for themselves."

Banks have shown strong results at the operating level. The government has pursued a deliberate policy of tolerance for high margins. The spread



Komerční Bank has completed an energetic expansion of its branch network.

Nicholas Denton on the banking sector's health

Where success breeds success

	Foreign reserves (US\$bn)									
	1993	1994								
	Dec 31	Mar 31	Jun 30	Sep 30	Oct 30*	Nov 30*	Dec 1*	Dec 2*	Dec 5*	
Official reserves	3,871.8	4,585.8	5,170.4	5,416.8	5,861.8	5,819.0	5,788.0	5,727.5	5,723.0	
Gross reserves	6,244.6	6,873.3	7,658.0	7,803.7	8,473.6	8,432.7	8,438.9	8,323.5	8,295.9	
Liabilities	1,841.0	1,688.2	1,282.2	943.5	1,182.3	1,008.8	1,106.8	1,052.9	1,058.5	
Net international reserves	4,403.5	5,204.1	6,289.9	6,860.2	7,281.3	7,423.1	7,332.1	7,276.6	7,237.4	

Source: Czech National Bank

between borrowing and deposit rates, while falling, still stands at 6 per cent. Nor has this implicit subsidy all been frittered away on irresponsible lending. Better lending discipline is demonstrated by one key statistic: new loans after the revolution make up 90 per cent of Komerční's portfolio but only 20 per cent of bad loans.

It sounds too good to all be

true in a region where bank failures and bail-outs have been endemic.

Even if big banks' bad debts are well covered now, they could easily deteriorate. One westerner who has worked closely with a large Czech bank says: "Success is always measured in terms of bigness or being first with a product. I keep telling them: our job is to make money, we are not a

utility. "There is no credit culture that pervades the bank. There is still no deterrent to making bad loans. You don't get fired if it happens."

Ownership of stakes in borrowing companies can also be a source of potential problems. "Banks are wearing two hats here. They obviously take a dim view of getting tough on clients when they are

shareholders," says a western investment banker.

Nor does a shareholding always stave off competition for lending business. Suitors surround CEZ, the electricity utility. And Komerční, for instance, lost the Czech tobacco company as a client when it was taken over by Philip Morris. Citicorp was the beneficiary. Margins are also coming under pressure as western banks make inroads into the Czech corporate market.

The Czech banking policy has been expensive. Mr Ales Barabas, board member of Zivnostenska Banka, says: "The government is pumping money into the banks, don't worry. It is just that here it is not public."

The foundation of Konsolidací Banka was itself a pre-emptive bail-out. The Czech government's liberal distribution of guarantees on corporate loans also reduces banks' need to provision and boosts capital.

Three small banks nevertheless failed earlier this year. Agrobanka, the fifth largest bank, applied international standards to its accounts and discovered that provisions had wiped out its capital in 1993. Further bank failures are a distinct possibility. "My

guess is that there is a much larger hit looming than has been acknowledged," says one western adviser.

The Czech National Bank classified loans more rigorously than ever before for its September data and found that 35 per cent are bad, compared with 22 per cent as measured before.

When the Hungarian authorities conducted their first in-depth analysis of banks' portfolios they found that the two largest commercial banks had negative capital equivalent to about 8 per cent of assets and were technically insolvent. The Czech National Bank refuses to give adjusted figures for capital adequacy. Mr Ota Kaftan, head of supervision at the central bank, says only: "It

is not a catastrophe."

The large banks claim they have already moved over to international accounting and so the change in calculation does not apply to them. Komerční says it made the shift in 1992 and now has met the Basle recommendation of 8 per cent capital adequacy.

But other, smaller banks face a brutal realisation that full provisioning will totally exhaust their capital. Even Mr Kaftan admits: "There could be some banks in the system which could have negative capital adequacy."

Leading banks stand to gain from a flight of deposits to quality that a further wave of bank failures would prompt. But those which lend on the interbank market such as Česka Spořitelna will be hit. Wood & Co says Spořitelna suffered an estimated Kčbn loan loss to the three small banks that have already gone bankrupt. Three more banks are considered at risk and Price Waterhouse, Spořitelna's auditor, has commented that Kčbn worth of provisions may not be adequate.

Despite the prospect of further loan losses and a tightening of capital adequacy calculations, Mr Kaftan is adamant that the Czech banking sector will reach the 8 per cent ratio by the time the country applies to join the European Union in 1996.

So far, Czech banks have proved able to restore their capital through rights issues on the Czech stock market and issuance of subordinated debt. Komerční raised Kčbn in March and Česka Spořitelna Kčbn in September.

Mr Ales Barabas, board member of Zivnostenska Banka responsible for the bank's investment fund, says: "To be honest, I'm surprised that the rights issues are running so well. I personally would not participate." But success breeds success, and as long as Czech banks can keep up the appearance of solidity they should be able to fund themselves out of crisis. Ultimately, it is all a matter of confidence.

Profile: WOOD & CO

Honest broker strikes gold

Prague, Budapest and Warsaw teem with young westerners seeking fame and fortune on the new business frontier. They have taken up the latest career advice: Go east, young man, writes Nicholas Denton.

Only a few have struck gold. One of them is Richard Wood. He came to Prague with no particular plan and no Czech connections. Aged 34, he is now managing director and main shareholder of the Czech Republic's top independent brokerage house, Wood & Co.

His is no rags-to-riches story. Mr Wood was a vice-president at Salomon Brothers in London, specialising in sales of fixed income derivative products. He brought to the Czech Republic his bumper bonus, a relationship with Salomon and City contacts. Not to mention a taste for green braces and salmon-pink skirts.

It has been, nonetheless, an adventure. What more dramatic time to make the break than New Year's Eve as 1989 turned to 1990 with eastern Europe's revolutions playing on the television screens. "It was like getting on the Mayflower and going to America except it was only an hour and a half away," says Mr Wood.

When Czech voucher privatisation began, Mr Wood toyed with the idea of setting up an investment fund. Everybody was doing that, but nobody was getting set up to broker between the funds. That's what Mr Wood did.

Wood & Co's key advantage is that it is independent. Other domestic brokers are owned by banks which also control fund management companies. "Richard has been very smart. He has established a niche business as honest broker between the investment funds," says Mr Nigel Williams, managing director of Creditanstalt Investment Company, and another City boy who has made it in the Czech Republic.

Wood & Co has also brought to the Czech Republic a western focus on the client and reputation. "Our Czech salespeople here actively develop relationships with Czech fund

managers," says Mr Wood. There are always rumours that brokers trade on the back of their clients but most believe Mr Wood's passionate assertion that reputation is the firm's most important asset. It is particularly powerful in eastern Europe, where capitalism is often synonymous with the quick buck.

Honesty in a crooked market can be expensive. Wood & Co struck a deal to buy shares for a client. The seller saw the price was going up, reneged on his deal and sold to someone else for 10 per cent more. Wood & Co had to fork up the difference. The company sued but could not convince the court that a person's word should be a bond. The broker estimates his company has lost \$1m this year from settlement failures. "At times we've almost wiped ourselves out to deliver securities," he says.

Nevertheless, Wood is now a port of call for western funds investing in the Czech Republic. The company estimates it handles about 40 per cent of brokered equity trading, more than any competitor.

In recent weeks it has set up operations in Warsaw. This pan-Slav strategy has distinct practical advantages. Czech and Polish are similar. Analysts can visit companies in the other country and more or less communicate.

Wood & Co's local experience and growing regional network give it a powerful competitive edge, but eastern Europe's stock markets are maturing. At the moment, emerging market funds, hedge funds and private investors are the most active players. Over time, a wider circle of institutional investors, including risk-averse pension funds, will include the region's shares in their portfolio.

Wood & Co will need an alliance with an international investment bank to reach that market. "Together with a western institution we could do more," Mr Wood admits. There have been approaches and he appears open to them. A tie-up would close a chapter in Richard Wood's east European adventure. It could also leave him seriously rich.



Richard Wood: the firm's main asset is its reputation



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CZECH REPUBLIC 6

Czech attitudes on citizenship for gypsies come under fire

A blot on the conscience

"The gypsies are vermin. We should put them on trains and move them out. People here prefer the skinheads, ask anyone."

This was how a news vendor reacted in the picturesque town of Pisek in South Bohemia earlier this month when 14 skinheads were acquitted over charges arising from the death of a 17-year-old Romany (gypsy) boy. He was expressing a widely-held view which reflects badly on the Czech reputation for tolerance.

The Czech Republic enjoys a good press as a model of how a post-communist state should

international conference in Warsaw in September that Czech policies over citizenship were creating "a humanitarian crisis in the heart of Europe".

Since July this year, some 100,000 Romanies have been stripped of their Czech citizenship. A new law, enacted after the split with Slovakia in 1993, classifies almost all the country's Romany population, estimated at over 250,000, as Slovaks, although two-thirds were born on Czech territory.

Many failed as they had to overcome a bewildering mass of bureaucratic hurdles and thousands are illiterate.

Although the vast majority of Czechoslovak Romanies gave up their nomadic lifestyle about 350 years ago, they have continued to live on the margins of society. Unable to form an effective political lobby and with few powerful friends, they have made easy targets.

Ms Ina Zoon, of the Tolerance Foundation, a Czech human rights group, argues that the citizenship law "was designed in a discriminatory way and directed against the Romany people".

Many Czechs view Romanies as troublemakers and criminals, heavily involved in prostitution and other unsavoury professions. But others say it is unfair and ironic for Romanies to be singled out for their supposed criminal behaviour, when Czech society as a whole is plagued by corruption scandals, and cheating and petty theft are widespread.

However, Romany pickpocketing gangs and pimps tend to be visible. Crime committed by non-Romanies may be more sophisticated and the police

Non-citizen Romanies were deprived of the right to vote in last month's local elections. They have also seen social benefits withdrawn

are often less vigorous in their pursuit of it. Since July, Romanies without Czech citizenship have been deprived of some key rights, including the right to vote in last month's local elections. They have also started to see their social benefits withdrawn.

Not only Czechs, but the international community at large has traditionally shown a lack of concern about the estimated 6m Romanies who now comprise the largest stateless minority in Europe. They are a distinct people who have preserved their own lan-

guage and culture since migrating to Europe from India in the 10th century. But they are often seen in terms of crude stereotypes - as thieving vagrants, fortune-tellers or picturesque figures out of Bizet's *Carmen*.

Recently, however, a number of international organisations have begun to take note of their plight and Czech citizenship policies are under fire. In October members of the US Congress wrote to Mr Klaus urging him to secure a change in the citizenship law, which they described as "the most extensive revocation of citizenship since the end of the second world war".

Mr Klaus, the CSCE High Commissioner on National Minorities, also "strongly urged that such legislation be changed". A great cultural divide exists between Czechs and Romanies. The latter are stuck at the bottom of the social ladder, but so far the government has brushed aside criticism. Mr Klaus described the congressional letter as "insignificant. Tens, if not hundreds, of letters come to my desk every day," he declared. Even President Havel has publicly defended the law.

For Mr Klaus, the primary motivation behind the law may be a wish to remove what he perceives as an economic drain and an obstacle on the road to prosperity. But there are also political advantages to be gained by pandering to the widespread and often crudely-stated racism of much of the electorate. Opinion polls indicate around 75 per cent of Czechs



Salesmen on the Charles Bridge in Prague

dislike Romanies and 30 per cent believe they should be deported or isolated in ghettos. It is not uncommon for bars and restaurants to display the sign: "No Romanies served". Recently, even public swimming pools have started to ban them.

Where the government and its critics differ is about what should be done. Romany groups now fear the Czech government may try to deport them. Although the government denies this, economic hardships and racism may force many Romanies to try to move to Slovakia, where the Czechs claim they will not have trouble getting passports and citizenship rights.

It seems unlikely, however, that the new Slovak government, which includes anti-Hungarian and anti-minority nationalists, will show much enthusiasm about absorbing them. The danger here is that any border tug-of-war that results could well inflame latent Czech-Slovak tensions as well as harming the image of both countries.

Tom Gross

Ian Rodger on a power engineering success story

Bridgehead for ABB

The Czech Republic has represented a special opportunity in central Europe for ABB Brown Boveri, the world's largest power engineering group.

For one thing, the country is likely to be a big market for the Zurich-based group's products. Programmes to renovate power generation and distribution infrastructure have high priority in the Czech Republic. For another, the very strong tradition of engineering skills in the country offers ABB a fresh pool of talent to add to its global network.

"There is a strong urge among the people, especially in Bohemia, to get back their industrial strength," says Mr Erik Fougner, ABB's country manager in the Czech Republic.

ABB's advance into the republic began in 1990, and the group has been an active participant in the privatisation process. To date, it has established six operating subsidiaries mainly based on existing Czech companies, some of them in joint ventures.

The most important of these is ABB První brněnská strojírna Brno (ABB PRS), based on the First Brno Engineering Works, a power engineering company dating from early in the 19th century.

ABB and PRS established their joint venture in April 1993, taking the core of PRS's boiler, turbine and power plant operations and 3,800 employees. ABB has a two-thirds stake.

Last year, ABB also acquired EJF, a Brno-based maker of switchgear for all voltage levels. Its other Czech subsidiaries include ABB Energo, a supplier of power transmission and network control systems, ABB Luminus Chemo-project, which supplies engineering services and ABB Elektro-Praga, a producer of household electrical fittings. In addition, a division was set up in 1992 to sell ABB's process instrumentation, robots and AC and DC drives.

Altogether, the group employs just under 7,000 people in the Czech Republic and operates 13 factories. No business figures have been published, but Mr Fougner says new orders totalled approximately \$22m in the first half of this year, as much as in the whole of last year.

Except for Elektro-Praga, all of the group's activity is directed at the large-scale power generation and distribution market. It has not attempted to bring its railway locomotive business to the republic.

Mr Fougner points out that strict new anti-pollution laws come into force in the Czech republic in 1996, so the potential for contracts to clean up or renovate existing power plants is considerable.

The group has just won an order to install its new pressurised fluidised bed combustion (PFBC) system to renovate a coal-fired plant at Trzavice, and Mr Fougner hopes for many more such contracts.

The group's Czech companies are also very quickly winning themselves roles within the overall ABB organisation. Mr Fougner says that exports from the Czech Republic now amount to about a quarter of turnover with imports at

about the same level. He expects exports to rise to 40 or 60 per cent of turnover and for the Czech companies to become net exporters.

ABB has transferred technology in several areas - boilers, turbines, coal combustion, medium voltage switchgear, engineering tools and household fittings - to its Czech companies. PRS has been designated the group's single European supplier of waste heat boilers.

The priority now is on bringing the companies' performance up to western standards, in terms of productivity and quality. "We are getting very close, although the mix of capital and labour is not the same as in the west," Mr Fougner says. All the companies are in various stages of earning their ISO 9001 certification, and all but one are expected to have it by the end of next year.

ABB's Czech companies have not been too badly hurt by the separation of Slovakia. Most of the operations were on the Czech side. ABB's Czech offices are no longer responsible for Slovakia, although that

country remains an important market for many of the Czech companies' products.

Relations with ABB subsidiaries in other central and eastern European countries are at a formative stage. Poland is the only other country with a substantial ABB presence, with Russia coming up quickly.

Other large Swiss companies have ventured into the Czech republic in the past few years. The foods group Nestlé was a pioneer, joining forces with BSN, the leading French food group, in 1994 to take over the country's biggest food producer, Cokoladovny, with 6,000 employees in 15 plants across both the Czech Republic and Slovakia.

There was speculation at the time that Cokoladovny would be split up in a few years, with Nestlé taking the confectionery business and BSN the biscuits. This has not yet happened, and Nestlé indicates the existing arrangement is still working well.

Holderbank, the Swiss-based cement group, is one of five leading western European cement makers that have invested heavily in the Czech Republic in recent years, partly to prevent exports from the country upsetting western European markets.

Ceva Prachovice, the Holderbank subsidiary, suffered a 12.5 per cent decline in volume sales of cement last year to 1.06m tonnes, and market conditions continue to be difficult. Mr Thomas Schmidheiny, chairman, said last month that operations in eastern Europe were making only "a very modest" contribution to profit.

A more unexpected source of large Swiss activity in the Czech Republic is the publishing industry. Bingley, one of Switzerland's biggest publishers, produces Blesk, a highly successful saucy tabloid newspaper in the republic as well as Profit, a popular business newspaper and some 20 other titles.

Mr Jürg Marquard, another Swiss publisher who has expanded in eastern Europe, publishes Czech versions of the pop culture magazine, Popcorn and Divia (Giri).

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The people of Moravia

Where obscurity seems bearable

The people of Moravia, who inhabit the eastern part of the Czech crown, share some of the frustrations long felt by the Slovaks when they formed the tail of the now defunct federal country called the Czech and Slovak republic.

There was no hint in the old name that Moravians also lived in Czechoslovakia, and there is still no hint of their presence in the name of the Czech Republic. They appear resigned to being overlooked. Following a brief half-hearted flirtation with separatism after 1989, when new states were cropping up all over eastern Europe, Moravians seem to have accepted the inevitability of living in Bohemia's shadow within the Czech Republic.

The movement that kept alive the idea of Moravian separatism splintered into four factions after the demise of the federation two years ago, when Prague stamped out any lingering hopes that Moravia would follow Slovakia into independence. As the Czech Republic's most heavily industrialised region, contributing more to the national gross domestic product than larger and more populated Bohemia, Moravia's independence was anathema to the government.

Yet Moravians quietly insist on their separate identity. Mr Janoušek, vice-president of the Czech-Moravian Centre party, which wants to renew the historical autonomy of Moravia within the framework of the Czech Republic, cites a 1991 poll which he says showed that most Moravians identify first with their province and second with the state. His party is pushing for the creation of a regionalised state with elected administrations having cultural and educational autonomy and a budget, financed either by subsidy or through local taxes, to pay for it.

Mr Klaus, who is a strong opponent of what he calls the "cantonalisation" of the unitary Czech state, is suspicious of any form of local government organisation that would raise the spending power and political autonomy of local authorities and regions. The only concessions to federalism by

Prague so far have been the siting of the Constitutional Court and the anti-monopoly ministry in Brno.

Faced with such an uncompromising line, Moravians are keeping their heads down, and the attachment to their province's historical legacy now appears to be mainly sentimental. In local elections in November Moravians voted overwhelmingly for national parties.

In the city of Brno, the province's capital and the country's second city, candidates representing the Civic Democratic party (ODS) of Mr Klaus swept into City Hall, routing the four successor parties to the Moravian separatist movement, whose combined seats fell from 20 to just five. The city's new mayor, Ms Dagmar Lastovická, is a member

Moravians quietly insist on their separate identity within the Czech Republic

of ODS, and many of the city's leading business people are supporters of Mr Klaus.

Only half the population of southern Moravia is truly Moravian, with Bohemians a close second. "We are not a nation," Mr Kupka admits. "Our demands for autonomy are not based on nationalism, but on history."

So Moravia soldiers on in relative obscurity. Asked to name 10 famous Moravians, Mr Kupka is momentarily stumped for an answer. After offering Charles the Elder, an ancient monarch, he eventually comes up with the composer Leoš Janáček, Tomas G. Masaryk, founder and first president of the interwar state of Czechoslovakia, and the philosopher Jan Komenius. The list may be small, but it is impressive.

A little reluctantly, Mr Kupka ventures the name of the emigrant writer Milan Kundera, a Brno native whose penetrating and often deeply funny analysis of Soviet-imposed "normalisation" in Czechoslovakia after the 1968 Prague spring, and musings on the "unbearable lightness of being", have made him a cult figure in the west. In the west, of course, Kundera is considered a Czech (and possibly a Bohemian with a small "b"), not a Moravian.

Vincent Boland

Brno, the country's second city, aims to become a centre for business

Trading post has big ideas

Any city that lives in the shadow of Prague can count on being ignored most of the time. This gives an edge to Brno's attempts to become a business centre in its own right.

For British veterans of the second world war, the city is perhaps best known as the home of the Bren gun. This fast and accurate machine gun was just one of the first-class light armaments for which the Moravian capital is famous. The desire to seize control of the region's arms industry was one of the reasons behind Hitler's decision to annex Bohemia and Moravia in 1938.

The arms industry is now a shadow of its former self, although rebuilding a slimmed-down and modernised arms industry is again considered politically respectable. President Vaclav Havel's high-minded talk of getting rid of the Czechoslovak arms industry after the Velvet Revolution got short shrift in Moravia and Slovakia, where the industry employs thousands.

Many of the best-known names in Czech industry are located in Brno, including Zetor, the tractor maker which is currently going through a painful restructuring process. With its long tradition of engineering skills and its endless industrial suburbs, the city is the Czech Republic's leading centre for transportation and agricultural machinery production. Some two-thirds of Brno's workforce is employed in the engineering, optics and glass industries.

The skills base has attracted significant foreign investment, which is helping old capital-starved industries to restructure and modernise. ABB, the Swiss-Swedish engineering giant, has invested heavily in Brno in the past three years, and now employs nearly 6,000 people at engineering and electronics plants in the city.

Internationally, Brno is probably best known as central Europe's largest trade fair centre. About a sixth of Brno's 390,000 inhabitants are students at its six universities which means a big supply of skilled labour for regional industries, which also include mining, energy and metallurgy.

Internationally, Brno is probably best known as central Europe's largest trade fair centre. The city has been a trading post for centuries, and this year alone more than 100 visitors have attended dozens of fairs at the 750,000sq metre BVV exhibition grounds on the outskirts. The fairs draw exhibitors from around the world, with a greater number coming from

the west since the collapse of communism destroyed the Comecon trading bloc.

Mr Břetislav Fabian, sales director at BVV, says the Brno exhibitions "are as important for central Europe as Frankfurt is for the west". The highlight is a giant engineering fair every September, which this year drew more than 3,200 exhibitors from 35 countries.

The city authorities have ambitious plans for reviving derelict areas of the city centre, including the construction of a huge shopping and office complex that will mean moving the city's main railway terminus.

A joint venture between the city, the technical university and the UK construction company Bovis, part of the P&O group, is building a Czech Technology Park on a 120-hectare site on the city's outskirts. Providing high-tech office space for new industries, it will capitalise on established academic-corporate links.

The park has already secured Siemens Telecommunications as its first big-name client, according to Mr James Hoddell of Healey & Baker, which is marketing the development but the entire \$200m development is not expected to be finished for at least a decade.

Vincent Boland



Brno: a city in the shadow of Prague

Courtesy

Kevin Done follows the progress of VW's investment in Skoda

Modest planning prevails

from VW to the further development of the Czech automotive components industry.

Under the terms of the deal VW has won approval for a more modest capacity expansion, and it has dropped the plan for a new engine plant. The current capital spending plan totals about DM3.7bn from 1991 to 2000, but this amount can be reduced further if VW can find additional investment cost savings.

Volkswagen has agreed to raise Skoda production capacity to 340,000 a year by the late 1990s from about 230,000 at present. Its plans include:

- A second car range for Skoda, due to be launched in 1996-97. This large family car range will have a unique Skoda body and interior, but will be part of the VW group's ambitious strategy to rationalise its product development and engineering operations. It

will derive from the VW's so-called "A" platform, which will also form the basis for the next generation VW Golf.

- Building a new paint plant at Skoda's main production facility at Mlada Boleslav.

- Building a new assembly plant for the second car range.

- Development of Skoda's existing all-aluminium 1.3 litre engine for use in both its planned car ranges and for possible use by Seat, the VW group's Spanish subsidiary.

- The addition next year of estate car and pick-up versions of the new Skoda Felicia small family car range - unveiled in October as the replacement for the outdated Favorit.

- Continued reduction of the size of the Skoda workforce as productivity is raised. It will fall to under 16,000 in 1995 from more than 17,000 last year, and could be reduced by a further 3-4,000 over the next five years.

As part of the new agreement VW has secured full title to the use of the Skoda brand name - previously disputed by Skoda Plzen, the Czech engineering group - and has resolved all property title disputes over the Skoda plants.

The deal opens the way for Volkswagen to raise its 31 per cent holding to 60.3 per cent by the end of December - including the conversion of preference stock into ordinary voting shares - and to 70 per cent by the end of 1995.

In total, VW will have paid in three tranches DM1.4bn for the 70 per cent stake - DM200m to the Czech government for the acquisition of part of its holding and DM1.2bn in new equity capital for Skoda.

The development of a more efficient Czech component industry was a key element in the original VW acquisition of Skoda, and its renewed commitment to this programme will be part of the new agreement with the government.

According to Mr Köhler "a velvet revolution" is under way in the Czech supply industry. Since VW moved into Skoda nearly four years ago about 40 joint venture components operations have been established, which already supply 44 per cent of Skoda's purchases of materials. A further 6.5 per cent of purchases come from greenfield site operations.

About 80 per cent of Skoda's total purchases of components are made in the Czech Republic and Slovakia and more than half of total purchases are already coming from suppliers with access to western technology. VW is now seeking to break new ground at Skoda by establishing supplier operations directly inside the car plant, moving a step head even of the Japanese model of having suppliers grouped in close proximity to the plant.

Three suppliers - Lucas, Johnson Controls and Pelzer - already work inside the Skoda plant, producing respectively rear axles, seats and carpets.

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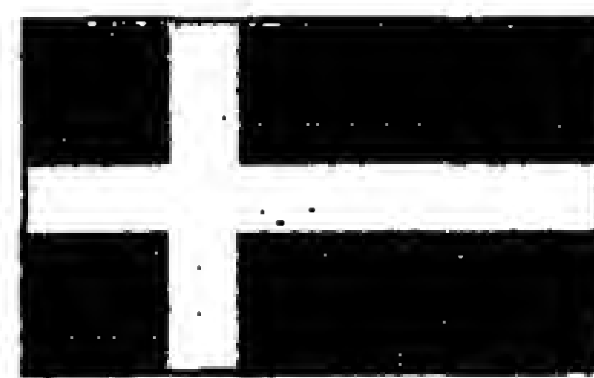
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SWEDEN

Monday December 19 1994

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A watershed decision

This has been a year of rare drama in Sweden.

In the space of two months during the autumn, the country went twice to the polls. First, in September, the Social Democratic party, led by Mr Ingvar Carlsson, defied predictions of a few years ago that the creator of Europe's most all-encompassing welfare system was crumbling. The party returned to power after three years in opposition when it ousted the right-centre coalition headed by Mr Carl Bildt in a general election.

Then, in a national referendum in November that provoked much fire and feeling, the electorate voted by a majority of 52.2 per cent to 47.8 per cent to join the European Union, a decision which marked the most significant strategic step by neutral Sweden since the second world war.

An essential part of the debate in both the election and referendum campaigns was the state of the economy, which had infected its own sense of drama into the nation's affairs. Although a recovery from a three-year recession at last took hold, the combined effects of the slump and the costs of the country's big public sector left the state with a yawning budget deficit, the fastest-growing debt in the industrialised world and more than 13 per cent of the workforce unemployed.

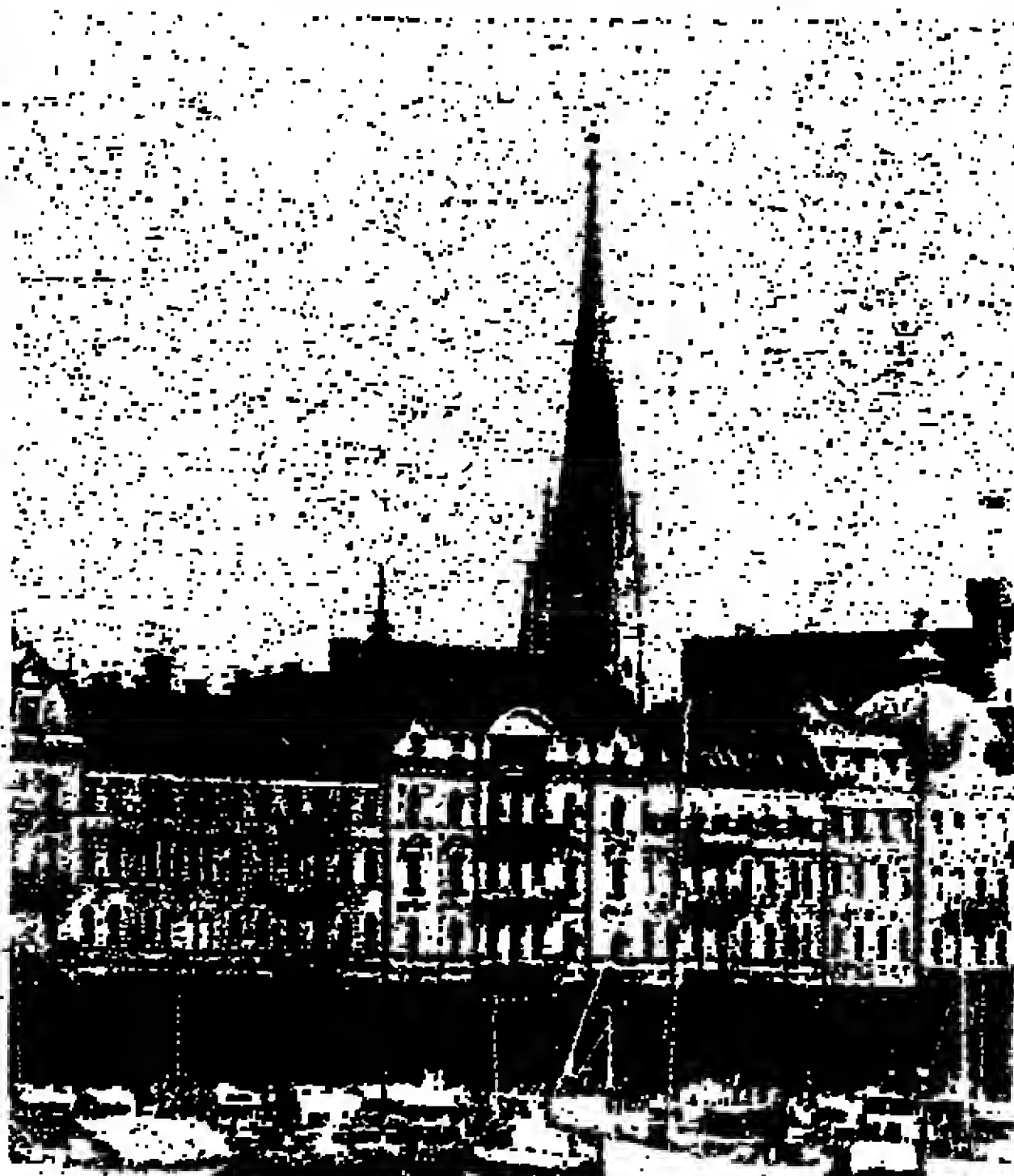
Beyond the political arena, there were other dramas which stirred the country to an unusual degree. In the summer – the warmest and sunniest since records began – Sweden basked in the glory of the national soccer team's unexpected advance to third place in the World Cup, becoming the competition's top-scoring team in the process.

But just after the election in September, the nation was plunged into a state of shocked mourning by the sinking of the Estonia, the Baltic ferry which foundered in a storm taking to their deaths more than 800 passengers and crew – most of them Swedish. The disaster was unprecedented in modern Swedish history, striking communities all over the country much as a war might do.

Other events rarely experienced in Sweden have contributed to an unusual sense of insecurity. In June, a young soldier shot dead seven people in a crazed shooting spree in the central town of Falun. In November, a teenager was beaten to death by two schoolmates. This month, four people were killed when a gunman opened fire on a crowd leaving a Stockholm night club.

The combination of these different events has reinforced

The vote to join the EU now settled, attention will turn again to urgent budgetary problems, says Hugh Carnegie



Stockholm is proceeding cautiously on EU military links. Pictures: Tony Anderson

the concern of the Social Democrats, in power for more than 50 of the past 60 years, to restore a sense of equilibrium to the country.

The party's instincts are clearly to rely on its traditional emphasis on creating a unified, egalitarian society underpinned by the universal welfare system. It regarded the 45 per cent share of the vote it won in the election – one of its best recent results – as a clear sign that the electorate had rejected Mr Bildt's appeal to transform Sweden through radical, free-market policies.

But the challenge Mr Carlsson faces is to reconcile the defence of a welfare system

with the cuts and reforms he readily acknowledges are required to sort out the public finances and return the economy to stable, long-term growth that will reduce unemployment. Mr Carlsson's immediate priority is, without doubt, the state of the public finances. This crisis struck, ironically, just as the economy was pulling out of recession. An export boom, fuelled by the devaluation of the Swedish krona in late 1993 and the recovery in international markets, has delivered economic growth this year of about 2.5 per cent after three successive years of recession which shrank the economy by 5 per cent.

This year, Sweden's big international companies such as Volvo, Ericsson, Electrolux and the big forestry-sector operators have surged back to high profitability on the back of the boom. Exports are set to continue to grow well in 1995 and there are hopes of a modest recovery in the domestic economy as well, leading the government to forecast gross national product growth next year of 3.4 per cent.

But unless the budget deficit is quickly brought under control and borrowing is stabilised, there are fears that continued high interest rates could precipitate a "double dip" return to recession.

Mr Carlsson and Mr Göran Persson, his finance minister, have therefore set a deadline for stopping the growth of the state debt – presently about 90 per cent of GNP – by 1998 at the latest through a series of tax increases and spending cuts. The budget deficit in the present fiscal year is forecast at SKr201bn, or 13 per cent of GNP; the government has already announced a package of tax rises and savings to reduce the deficit by SKr7bn by 1998 and plans a further SKr20bn cuts in the January budget. The two key questions are whether this will be sufficient and whether it is politically sustainable for the minority government. Many in the



Saab-Scania aerospace factory: Sweden's big international companies have surged back to high profitability

financial markets are sceptical that the scale of the spending cuts will be enough in an economy where public spending has reached 70 per cent as a proportion of GNP. They fear that the government has made over-optimistic calculations of the savings it expects from lower interest rates and lower unemployment, based on expectations of a vigorous recovery. They are far from convinced that the post-devaluation bounce in the economy will not turn into another damaging inflationary cycle, as happened in the 1980s.

Continuously for the government, international credit rating agencies are presently reassessing Sweden's sovereign credit rating. Moody's, the US agency, has warned that it may shortly down-grade Sweden. If it does, interest rates will jump and Mr Persson's budget plans will be put under even stronger pressure.

The markets are also watching political developments very carefully. Mr Carlsson is confident the government can get

its policies through the Riksdag (parliament) by charting a "salomon" course, seeking support for a majority on different issues from among the six other parliamentary parties, which range from the Left and Environment parties on the left, through the Centre, Liberals and Christian Democrats in the centre, to Mr Bildt's Moderates on the right. "We are as secure as a formal minority government could be," says Mr Carlsson.

His confidence may be rewarded because there is a strong desire among most parties to see public finances brought back into balance. But Mr Carlsson and Mr Persson first have to persuade their own party supporters and the trade unions to accept public sector and benefit cuts on a scale rarely seen before.

The urgency of the budget battle has tended to overshadow the watershed that will occur when Sweden joins the EU in January. Throughout the post-war period, Sweden stood to one side from western

Europe, concerned above all to preserve its neutral stance between the Soviet Union and the US-led western alliance.

With the end of the cold war, those concerns have largely melted away, allowing Mr Carlsson to lead his previously anti-EU party towards Brussels. Sweden – along with neighbouring Finland, but not Norway, which rejected membership – will now be firmly sited in the western European strategic and economic camp.

But Stockholm is proceeding cautiously. The government is holding firmly to military neutrality. It will take up the minimum observer status in the EU's military organisation, the Western European Union; it has joined Nato's "Partnership for Peace" initiative, but has no intention of applying for full Nato membership.

On economic co-operation, Mr Carlsson is being careful to keep his options open, ahead of the EU's planned 1996 review of the Maastricht Treaty, which laid out a timetable for the European Monetary Union. He

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says he favours closer monetary co-operation, but will not be drawn on whether Sweden supports an eventual move to a unified currency.

With Sweden far from meeting the monetary criteria for Euro, its participation is something of an academic question, at least until the end of the decade. But Stockholm will support moves to make employment conditions part of the Euro criteria – a concern that reflects Mr Carlsson's anxiety to put the fight against unemployment at the top of the EU's agenda, alongside the next enlargement project to include central and eastern European nations.



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SWEDEN II

Hugh Carnegie examines the economy

Battle to restore prosperity

Three issues have dominated what has sometimes been an anguished public debate about the Swedish economy this year: the budget deficit, the consequent expansion of the state debt and unprecedented levels of unemployment.

The deficit, expected to reach SKr20bn in the current July-June fiscal year, is running at about 13 per cent of gross national product, one of the deepest holes in the public finances of any European country. Borrowing to fill the hole has pushed up state debt to almost 90 per cent of GNP, making Sweden the world's biggest sovereign issuer on international bond markets. This alarming imbalance, the legacy of a three-year recession and an overweighted public sector, has to a significant degree been exacerbated by the need to pay for record unemployment, now running at about 13 per cent of the workforce when those in government-funded training schemes are added to the 8 per cent of workers on unemployment benefit.

These are the figures which attracted most attention in the campaign for the general election in September. The precarious state of the public finances has also led to strong pressure from the financial markets for drastic measures to curb borrowing, which in turn has put added strain on the economy in the form of high long-term interest rates. Sweden pays a premium of 3.5 percentage points in interest on its 10-year bonds compared with benchmark German rates.

For Mr Göran Persson, the new Social Democratic finance minister, the tough task is to forge a transformation from a

vicious to a virtuous circle where the deficit is reduced sufficiently to reassure the markets - thereby engineering a cut in interest rates which bolsters a real recovery underway in the economy at large and helps achieve the vital political priority of cutting unemployment.

But even achieving this may not be enough to produce a long-term solution to the underlying structural weakness in the Swedish economy that has seen almost all net job creation in the past two decades come from the public sector as Sweden's famous universal welfare model expanded. Mr Persson must also engineer a reversal of a trend that has seen Sweden slide since 1970 from third place in the world league of GNP a head - then behind only the US and Switzerland - to 18th place.

On the immediate task of sorting out the public finances, the new government has begun to get down to business. To stabilise the debt by the next election in 1998 at the latest, the target set by all mainstream political parties, Mr Persson's team at the finance ministry calculates that the budget must be strengthened by SKr18bn.

In early November, the first step was taken by a package that included tax increases to yield SKr18bn and spending cuts of SKr25.5bn. A further SKr20bn in spending cuts is promised in the January

budget. With an estimated saving of SKr14bn forecast for the period from lower interest rates, this will yield a little over SKr18bn.

Although in a minority in parliament, the Social Democrats have support from the Left party for the initial package and is confident of securing a majority with the help of right-of-centre parties for the next budget.

The markets have yet to be convinced. They will need to be reassured that the Social Democrats can get approval for budget cuts which will hit the party's bedrock supporters in the welfare system. They are nervous about the costs of an employment package also promised in the budget which is likely at least to include some significant short-term spending. They are also worried that some of the finance ministry's forecasts are over-optimistic.

The ministry is anticipating 3.4 per cent GNP growth in 1995. (This year, growth is expected to be about 2.5 per cent after three successive years of recession.) It foresees stable private consumption despite the reduction in household income due from the tax increases and spending cuts, and a fall in "open" unemployment to below 7 per cent. It also foresees inflation at 3 per cent, just on the upper target limit set by the Riksbank.

levels would require a further stage of reform of the public sector.

To achieve this, the previous government under Mr Carl Bildt, radical leader of the conservative Moderate party, advocated free market reforms to cut back state monopolies in the public services, widespread liberalisation in areas such as labour market regulation, lower taxation on capital and extensive privatisation.

The Social Democrats, creators of the welfare state, have a different agenda. They readily accept the need to engender greater private sector growth; they acknowledge that the public sector must be reduced as a proportion of the economy; they embrace the need for open markets and competition.

But they remain committed to a strong public welfare system and the maintenance of a society where variations in income are smoothed out by state-directed redistribution of wealth. Their critics say this ultimately prevents them from tackling issues such as labour and monopoly market deregulation which is needed to unleash long-term growth.

The government has so far put a brake on deregulation of Sweden's energy market, reversed some Bildt labour reforms and is hesitating over the privatisation of Telia, the state telecommunications company. The former government parties may tacitly or even explicitly support the Social Democrats in their efforts to cut the budget deficit. But they will certainly keep up the pressure on the new government to go further in reforming the economy in the battle to restore Sweden's long-term prosperity.



The ministry foresees stable private consumption despite the reduction in household income due to tax increases

Ingvar Carlsson, 60, took over as prime minister and leader of the Social Democratic party in early 1986 after the assassination of his predecessor, Mr Olof Palme.

In 1991, as Sweden spun towards a deep recession, he lost power to Mr Carl Bildt, leader of the conservative Moderate party, who declared that the long dominance of the Social Democrats and the universal welfare state they had built was over.

But Mr Carlsson led his party back to power in September's general election, pledged to defend the welfare model. Less than two months later, Mr Carlsson chalked up a second notable triumph when he won the battle to persuade Swedes to accept membership of the European Union in a national referendum.

With these victories behind him, Mr Carlsson can now turn to the urgent task of tackling Sweden's mounting state debt - soon to exceed 90 per cent of gross national product - and bringing down unemployment presently running at 13 per cent of the workforce.

Hugh Carnegie asked Mr Carlsson to outline his government's primary objectives. Mr Carlsson: Very clearly to stabilise the total debt, get over the economic crisis and stimulate economic growth and get down unemployment.

Doesn't this amount to a rather defensive agenda? I don't think so. Unemployment in Europe is too high and to say that we want to

INTERVIEW: INGVAR CARLSSON

Two notable triumphs

attack that unemployment and do it now together with other member countries in the Union - that is not defensive. It is very important long term for a progressive society to solve these problems.

The financial markets are sceptical that you can balance your commitment to defend the welfare system with the need to cut the budget deficit. How can that be done?

Let us now see what we are doing. First, the former government reduced the budget deficit by SKr18bn. In addition to that we have now a proposal in parliament reducing the deficit by another SKr57bn and we have proposed to parliament the financing of the fee for EU membership of SKr18bn. And we have said in January there will be around SKr20bn, mainly in cuts. Honestly I don't think that the market is aware yet of what we are doing. But they will see the facts. This means we will stabilise the total Swedish debt before 1998 - which was what we said in the election campaign. I think it is possible already in 1997. And when the market sees the total effect of these proposals

that will definitely mean a stronger currency for Sweden and also a lower rate of interest.

The Social Democrats are in a minority in parliament. How stable is the government?

We have 46 per cent of the mandates and there are six parties in parliament - all the way from the conservatives over to the Left and the Environment parties.

When we look at our proposals we usually find at least one, and very often several, of the parties supporting us. We are as secure as a formal minority government could be. I think we have very good chances (to survive the four-year mandate period).

What role will Sweden play in the EU? We will be very ambitious. We will be active. We will take responsibility. We will accept decisions taken and follow them, but we will also come with concrete proposals, particularly to fight unemployment in Europe and to fight environmental problems. We will be active supporting the three Baltic states becoming members. And of course, now Norway is not

coming in we will try to see to it that Norway still will be in close and good co-operation with the EU.

What action will you propose that the EU should take on unemployment?

I think what is in the EU Commission's Employment White Paper on investment is a good start - investments in infrastructure, roads, railroads, plus better labour market policies.

I think Sweden has something to contribute here with our experience on active labour market policies. Instead of paying cash to people, put it into active measures. We should have much more on education, not just for youth and universities, but recurrent education, bringing people back from the factories into education, giving them a better chance in languages, electronics, information technology and all that.

Sweden is a neutral country. After the end of the cold war, some Swedes argue that neutrality is dead - that joining the EU means Sweden will inevitably shift towards joining a western European security alliance.



Prime minister Ingvar Carlsson

No. I don't agree with that. The parliament has said - and all parties agree with that - that we are militarily non-aligned, able to be neutral in case of war in our neighbourhood. And that's a reality. It's a parliamentary decision and the government is sticking to that.

We are not leaving our present position without knowing where to go. The Western European Union as it looks today, with the resources it has today, is no alternative. I think it is not in the interests of Nato, it is not in the interests of Sweden to change the basic security pol-

icy in northern Europe. We have had a very stable situation in northern Europe for many years with the kind of security policy we have had so far and I think it could be a dangerous policy to give Russia the feeling that we are encircling them.

Of course, we also have to say that with the Berlin Wall torn down in 1989 we have a completely new security position in Sweden. The old, very difficult policy for us between east and west - that's gone.

We are in former Yugoslavia with more than 2,000 soldiers; we are actively taking part. So it is a different situation. But when you come to the core - are we prepared to give up the military non-alignment - the answer is no.

What is Sweden's attitude towards building European Monetary Union?

I am personally in favour of stronger co-operation in monetary policy but the formal position of Sweden, both the present government and the former government, is that before saying yes to that co-operation we must know what it really will mean in reality and we don't know that yet. That is also what Germany has said; but I see personally that there are good arguments for increased co-operation. But I don't want to take specific positions. There are problems with (creating a common currency). I think we have to increase co-operation but the ways and means to do it have to be discussed further.



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Sweden and the European Union

Political passions stirred

Rarely have political passions been so stirred in Sweden than in the debate that preceded the referendum vote on Sunday November 13 to join the European Union. Rarely has the country been so deeply split, geographically, demographically and politically, on a national issue.

The depth of feeling on the losing side after the 52.2-46.9 per cent result in favour of membership - 0.9 per cent of voters cast blank ballots - was graphically illustrated the following day in a radio confrontation between Mr Carl Bildt, the pro-EU former prime minister, and Mr Per Gahrton, Environment Party member of parliament and one of the leading figures in the No campaign.

Mr Gahrton, asked if it was now time quietly to accept defeat, exploded into a tirade against what he called "the insults and idiotic arguments" of the Yes side "spewed over us". Turning on Mr Bildt, he declared: "I represent more communities (municipal districts) in this country than you. I represent more workers than you. I represent more of the people who will be losers out of this."

At least on two points, Mr Gahrton was right. The map of Sweden the morning after the EU vote showed that the vast majority - geographically - of the country had voted No, with the Yes vote being carried thanks only to heavy Yes results in the areas around the three main cities: Stockholm, Gothenburg and Malmö. Out of 263 communes nationwide, only 83 voted Yes.

On the No side, the main stalwart groups were trade unionists, young people and women. Most worryingly for the newly-formed Social Democratic government, almost half of all Social Democratic supporters voted No.

The core of the No argument was the perception that membership would undermine Sweden's independence, compromise its military neutrality, threaten its cherished welfare system and entrench high unemployment because of the EU's preference for free-market economics. The Yes campaign, meanwhile, spearheaded by the



Stockholm, November 13: European Union supporters celebrate after Sweden voted to join the EU. Picture: Reuters

political elite and business leaders, argued that Sweden must be a full participant in the EU's evolving political and economic structures to cement its own strategic and economic future. The key question now is whether the deep divisions which the debate exposed will

Some No campaigners are demanding another referendum if the EU goes further

persist or whether, over time, a general acceptance of the nation's participation in the EU will grow.

Some signs already suggest the latter. A poll late last month showed most No voters were reconciled to the Yes result - notwithstanding the reaction of senior No campaigners such as Mr Gahrton. In the most northern county of Norrbotten, where some districts voted 80 per cent against membership, Mr Sven Persson, a senior official in the county council, commented: "Many people up here already regard

Stockholm rule as almost colonial rule. Now they see power moving even further away to Brussels. I think the day when we start to realise the benefits of EU regional funds for us, people will change their ideas - but it will take some years."

Still, there exists at least a risk that the strength of anti-EU feeling at large in Sweden will make the country forever an inherently Euro-sceptical EU member. Some No campaigners are already demanding another referendum if the EU goes further in its move towards common security policies and full monetary union.

This is particularly true within the Social Democratic party, easily Sweden's biggest political movement. Walter Karpf, a professor of politics at Stockholm University, thinks the party faces a tough future over Europe. "Once a party develops a serious split like this it is very difficult to overcome it," he says. "If the benefits promised by the Yes side - such as lower unemployment - are not forthcoming then there are likely to be

long-term consequences (within the party)."

However the very threat of such a long-term cleavage undoubtedly increases the incentive for Mr Ingvar Carlsson, the prime minister, and his government to play an active role within the EU in the hope of gaining tangible results on the issues of most concern to them.

Swedish officials stress their wish - in league with their fellow Nordic countries Denmark and Finland - to further the campaign for greater openness in the EU's decision-making processes, to increase environmental standards, to advance equality between the sexes, to

KEY FACTS		
Area	449,964 sq km	
Population	8.75 million	
Head of State	King Carl Gustaf	
Currency	Swedish Krona	
Average exchange rate	1993 \$1=SKr 7.78	
	Jan-June 1994 \$1=SKr 7.90	
ECONOMY		
	1993	1994
Total GDP (\$bn)	188.2	191.4
Real GDP growth (%)	-2.2	2.5
Components of GDP (%)		
Private consumption	54.7	54.0
Total investment	13.7	14.2
Government consumption	27.7	27.0
Exports	32.7	35.7
Imports	-28.9	-30.8
Annual average % growth in		
Consumer prices (%)	4.7	2.3
Ind. production (%)	2.6	9.7
Earnings (%)	3.2	3.9
FT-A Share price index (%)	38.8	17.5
Unemployment rate (%)	8.2	8.1
Discount rate (%)	5.0	7.0
Govt. bond yield (%)	7.0	11.0
Trade (\$K bn)		
Current account balance	-2.5	2.4
Merchandise exports	388.3	378.1
Merchandise imports	333.3	317.9
Trade balance	55.0	60.2
Main trading partners (%)		
Germany	14.4	17.8
UK	10.2	9.3
Norway	8.1	6.4
USA	8.4	8.8
Denmark	6.6	7.3
Finland	4.6	6.2
EU	55.2	54.8

Notes: *GDP, components and growth-first half 94 only.
 †Inflation, Unemployment-average over year to October 1994.
 ‡Earnings, ind. prod.-average over year to August 1994.
 §Share prices % growth over year to end Dec 93, Nov 94.
 ¶Discount rate, Bond yield-at end Dec 93, Nov 94.
 **Current account balance Jan-Sept 1994 only.
 ***Trade-Exports, imports, Jan-Oct. 1994 only.
 ****Percentage shares of trade in 1993.
 Sources: IMF, EU, National Institute of Economic Research.

accelerate the integration of eastern and central European nations (including the three Baltic states), to cement free trade agreements and, above all, to combat unemployment.

The rejection of membership by Norway has weakened the potential "Nordic bloc" within the EU which would have been united in championing these

issues - a matter of real regret in Stockholm. But Swedish ministers say they will actively seek to build alliances with other like-minded EU members to form influential fronts on these issues.

Mr Mats Hellström, minister for European affairs, says it is a big mistake to think that because the anti-EU camp was

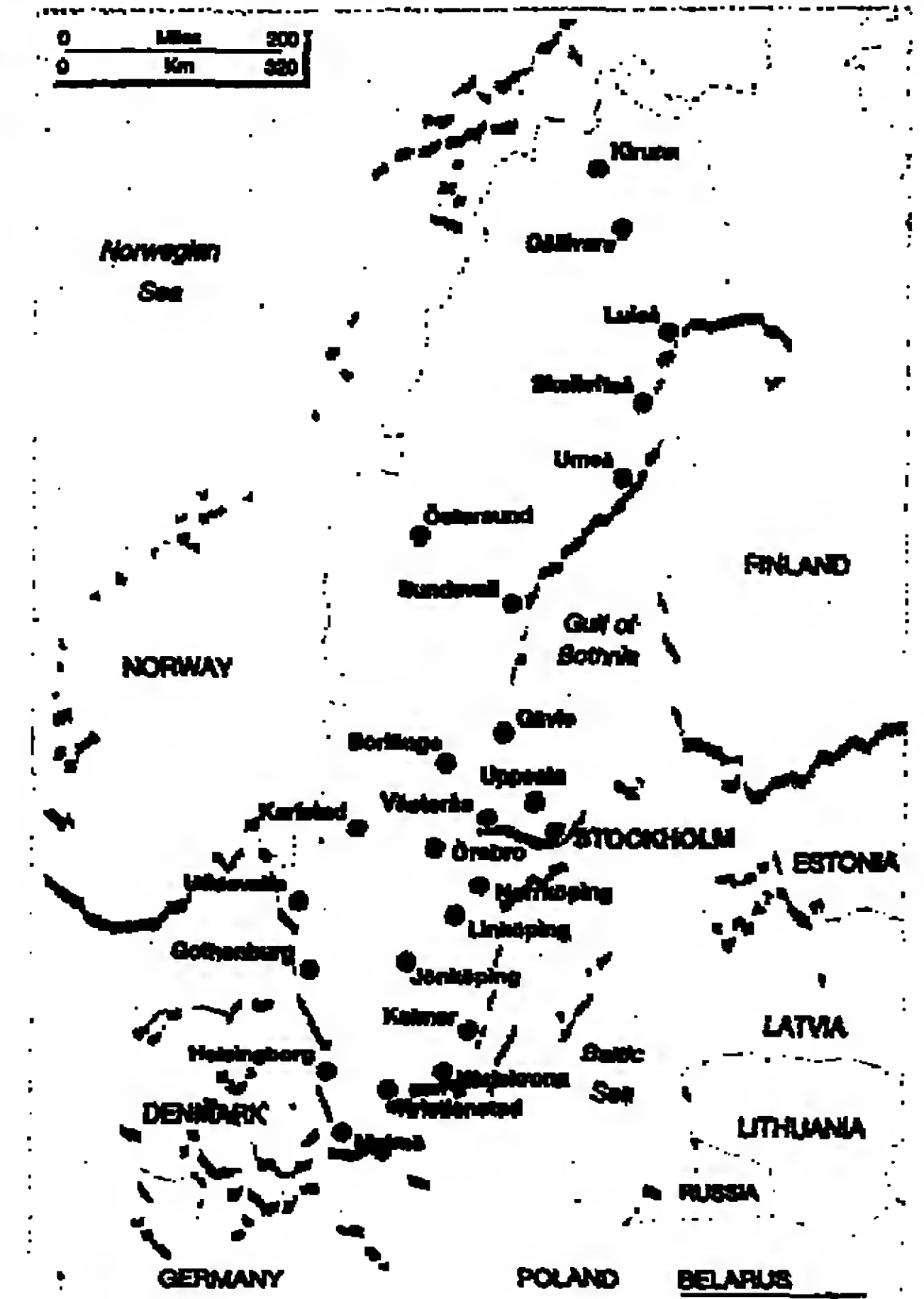
so strong in Sweden that Stockholm will not be a full-hearted member. "That view misunderstands Sweden," he says. "When we enter an international organisation, it is always our intention to see that the organisation is strengthened, not watered down."

But he stresses there is no pre-ordained Swedish position on how the EU's structures should be shaped. The government, approaching the 1996 Intergovernmental Conference that will review the Maastricht Treaty, is being cautious. It is sticking by Swedish neutrality, reluctant to be drawn into taking a stance on a common EU

security and defence policy whose shape is as yet far from clear. Likewise, Stockholm favours extending co-operation on economic and monetary policy, but is holding back from endorsing a single currency.

"We will ask how the Union can be effective in creating common policies to further progress in areas such as environmental and employment policy - then we will ask to what extent the institutions affect these. Our approach will be from the substance of politics, not from an ivory tower discussion about institutions," says Mr Hellström.

Hugh Carnegie



Relations with Norway

Officials fear wedge

If you ask officials what course relations between Sweden and Norway will take in the wake of Sweden's "Yes" last month to membership of the European Union and Norway's rejection of membership, "status quo" is the united response, writes Karen Fosell.

Privately, however, they express fears that a wedge may have been driven between the two countries by the different outcomes of their referendums on EU membership.

Norwegian officials fear that at some point Sweden will be forced to ask itself "What's in it for me?" when deciding between Nordic co-operation and EU loyalty.

For Norway, a 90-year union with Sweden and before that a 434-year union with Denmark, were both forced marriages which partly explains Norwegians' icy response to joining anything resembling a union. Norwegians are quick to point out that during both unions the country lost its identity and the people lost their language.

Norway relinquished neutrality following the occupation by Nazi Germany during the second world war and became a founding member of the North Atlantic Treaty Organisation (Nato). Sweden, which was not occupied during the war, has maintained neutrality.

In joining the EU, Sweden will attain observer status at the Western European Union (WEU), but the country is loathe to subscribe to full membership. Norway has WEU observer status.

Norway says Sweden relies on its ties to Nato. "This has always been vital for Sweden and has contributed to allowing the country to maintain neutrality," one Norwegian official explained.

In 1952, the Nordic countries established the Nordic Council through which co-operation has since been undertaken. Resolutions unanimously passed in the Council are binding for the Nordic governments but in some cases must be approved by their individual national assemblies. Foreign policy and security policy fall outside Nordic co-operation, however.

Mr Carl Bildt, the former Swedish conservative Moder-

ate prime minister, suggested last month that formal Nordic co-operation be dismantled in view of the broad Nordic expansion into the EU. But, Mr Ingvar Carlsson, Sweden's prime minister, has so far resisted such a move.

"There is a limit to what Sweden could do [to this end], if it was to do anything at all, because there would be a public outcry if Nordic co-operation was to end... and this gives Norway some protection," a Norwegian official said.

Last month, the Nordic Council agreed that co-operation should be reformed to take into account "a wider international outlook". Nevertheless, Norway fears that the Nordic Council might become obsolete, or take a back seat to the EU, now that all of the Nordic countries

Local Swedish authorities are attempting to persuade Norwegian companies to relocate

except itself and Iceland have become EU members.

One of the most significant achievements of the Nordic Council is that of joint labour markets, set up 30 years ago, and the introduction of unrestricted passage between Nordic states. Swedes can work and live in Norway or other Nordic countries and vice-versa. Officials do not foresee interruptions in these agreements just because Norway is outside the EU but both sides see controls at the new EU Swedish-Norwegian border being tightened.

Swedish customs officials say they have received no signals from Brussels that things should change. The Norwegians, however, fear that an existing drain of trade to Sweden at the frontier will become exacerbated by the new EU border. Norwegians have for years been motoring to Sweden where food prices in particular are significantly lower and are set to decline as a result of EU membership.

Local Swedish authorities are already attempting to persuade Norwegian companies to relocate "just over the border into the EU" and advertising campaigns spelling out the benefits are in full swing. Some local authorities are

offering incentives such as free building plots and cash advances towards hiring staff.

Norwegian officials plan to increase the number of customs officials posted at the frontier. Before it decided to become an EU member, Sweden planned to cut border staff but it may now have to increase staffing.

Norway is deeply concerned about domestic companies relocating to Sweden. Already, some Norwegian fish processing companies have moved to Sweden, and others warn they will follow in order to benefit economically from not having to pay tariffs on processed fish exported between EU countries.

Processed fish exported by Norway to the EU is subject to a complex system of tariffs. But another benefit for companies relocating to Sweden is that they can qualify for support from the EU's regional fund. Norway is therefore considering establishing a "free enterprise zone" in specific counties at the EU frontiers of Sweden and Finland but has yet to give details.

Officials in Sweden and Norway are disappointed with Norway's "No" vote. Sweden and Finland counted had on Norway joining the EU because it would have meant that one in four of the countries around EU tables would have been Nordic. The Nordic bloc could have wielded considerable influence over EU decision-making.

The Swedes and Norwegians say the European Economic Area trade pact, established in 1992 between the European Free Trade Association (Efta) - of which they are members - and the EU, will protect Norway to a certain extent once Sweden becomes a full EU member from January 1. But Norwegians concede that foreigners considering investment in the Nordic region will favour Sweden because of its EU member status.

The irony of Norway's rejection of membership is that the country will become more dependent on Sweden to air Norwegian views in Brussels, a dependency which it has fought hard to shed since dismantling the union with Sweden 90 years ago.

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SWEDEN IV

Tourism is one of Sweden's fastest growing sectors and, although the trade is relatively young, ranks as the country's third-largest industry, generating annual turnover of an estimated SKr86bn of which SKr21bn is derived from foreign tourists.

The attraction of Sweden has to be, among many things, the country's unspoiled environment and alluring scenery comprising 60,000 islands, 90,000 lakes, a 4,725-mile coastline and endless forests. There are also 350 museums in the country and a wide variety of special events throughout the year.

The tourist industry peaked in 1989 when turnover hit SKr100bn, but nose-dived by nearly SKr80bn during 1990-91 when the then Social Democratic government led by Mr Ingvar Carlsson, increased value added tax on tourism to 25 per cent in two stages.

The VAT increase coincided with the onset of the deepest recession to hit Sweden since the second world war. But the industry recovered during 1991-93 after a new conservative Moderate government, led by Mr Carl Bildt, reorganised the marketing of tourism and cut VAT to 12 per cent.

These factors were aided by the start of a recovery in the economy which began at the end of 1993.

Nevertheless, even after the rate cut, Sweden's VAT remains significantly higher than the European average. The Swedes argue vigorously that prices in their country have become competitive with the rest of Europe while a main priority of marketing seeks to dispel "the myth" that Sweden is far too expensive to be considered a holiday destination by more than just the elite.

"Surveys show that many foreigners still believe that Sweden is too expensive. Heavy resources are therefore being invested in marketing Sweden abroad," the Swedish Trade Council said in its 1994 annual report on the country.

In the first nine months of this year, the number of overnight stays in Swedish hotels by foreigners rose 13 per cent compared with the year-earlier period, and industry executives are predicting that 1994 will be a record year in terms of growth. Last year, foreigners' overnight stays alone reached 6.1m.

During the first nine months of 1994, Dutch and Danish tourists accounted for the highest growth rate in overnight stays in percentage terms, rising respectively 25 per cent and 26 per cent while US visitors rose by 14 per cent.

German tourists, the largest group of foreign visitors to Sweden, increased their overnight stays by 13 per cent and UK tourists 11 per cent.

Another indication of the strength of this year's activity is a forecast rise in the number of cruise ship passengers calling on Stockholm alone. It is estimated that international cruise ships will make 125 visits to the capital city this year, carrying a total of 70,000 passengers, representing an increase of 10,000 passengers over 1993.

Mr Per-Johann Orrby, president of Next Stop Sweden (NSS), the Swedish Travel and Tourist Council, attributes the rise in



Lake Mälaren: Sweden's alluring scenery is one of its attractions

Picture: Peter Daxer

TOURISM

Growing rapidly



Passenger ferry Silver Cloud near Stockholm. Sweden has a 4,725-mile coastline

Picture: Tony Andrews

tourism's fortunes partly to Sweden's attractive prices - in foreign currency terms - since the krona was devalued by nearly 30 per cent in 1992. The reduction of VAT and a slight recovery of the economy are also considered significant.

NSS reckons that sterling buys 15 per cent more in Sweden since the devaluation, while the purchasing power of the US dollar has risen 18 per cent and the German mark 30 per cent.

But the Swedes probably also have their next-door Nordic neighbours to thank for foreign interest, following Norway's success in arranging the Winter Olympics earlier this year.

For more than two weeks in February, hours and hours of pristine, sunlit "Scandinavian" winter images were broadcast worldwide from Lillehammer in Norway. Such coverage undoubtedly had a spillover effect for Sweden and must have improved the country's standing as a tourist destination.

The Olympics boosted Norway's tourist

industry by as much as 5 per cent this year but it would be difficult to quantify the effect it had on Swedish tourism.

According to Mr Jan Brännström, managing director of Image Sweden, the state-backed agency which promotes Sweden internationally, recent studies revealed that about half the foreign tourists visiting Sweden do so as part of a Scandinavian tour. But, he said, there were no plans for a joint Scandinavian tourism marketing effort and, in the long-run, he saw few, if any, benefits from such a scheme.

Another important factor which has undoubtedly lifted the awareness of Sweden abroad is the apparent success of the big overhaul of the organisational structure of marketing services for tourism. The Swedish Tourist Board was dismantled and Image Sweden established together with NSS. Image Sweden purchases marketing services from NSS for an estimated Nkr60m annually.

Karen Fossli

Christopher Brown-Humes examines energy policy

Nuclear deadline looms

Sweden is a country with one of the safest nuclear power industries in the world - and yet it has committed itself to phasing out nuclear power entirely by the year 2010. Perhaps only in a country of such dogged environmental idealism could so dramatic a move be contemplated when nuclear power accounts for close to 50 per cent of electricity production.

Nuclear power has been a hot potato in Sweden for 20 years. The issue has nagged away with varying degrees of intensity in the political debate, even helping to decide the outcome of one general election.

It has gained added urgency every time there is a nuclear spillage beyond Sweden's borders, such as the 1979 Three Mile Island disaster in the US and the Chernobyl disaster in the Ukraine in 1986. Now, as the 2010 deadline looms, a new urgency has developed and a new political crisis may be in the offing. If the final deadline is to be met, a date for the phase-out of the first of the 12 reactors has to be fixed soon.

In many countries, the practicalities of the matter would decide the issue. Most of Sweden's nuclear power plants are nowhere near the end of their technical lives. Replacing them would be extremely costly, there are no easy alternatives, and there is an obvious risk of higher electricity prices.

But in Sweden there is a strong political will to phase out the controversial energy source completely. The Centre, Christian Democrat, Left and Environment parties

have all tied themselves to the anti-nuclear mast. More importantly, the Social Democratic prime minister, Mr Ingvar Carlsson, is personally committed to the phase-out, saying 2010 is "a realistic commitment." His party, however, is split on the question.

The 2010 date was set by parliament in 1980 after a national referendum in which Swedes voted to dismantle their nuclear industry. The date chosen was 25 years after the last of Sweden's reactors was commissioned in 1985. Why 25 years? Because that was assumed to be a nuclear plant's technical lifespan just because it is the standard depreciation period for Swedish nuclear assets.

The issue again came to the fore in the late 1980s when parliament decided to dismantle the first two plants in 1995 and 1996. However this commitment was side-stepped as part of a three-way accord between the Social Democrats, the Centre Party and the Liberals in early 1991. The 2010 target, however, remained in place.

The importance of nuclear power to Sweden is not contested. Last year it generated 58.9 terawatts of power, or 41.8 per cent of the country's electricity needs. Hydro-electric power produced 73.3 TWh, or 52 per cent.

Ironically, the improving efficiency of Swedish nuclear plants and the expected re-commissioning of a plant that has been out of service means the nuclear contribution is

predicted to rise over the next two years. Next year, nuclear electricity output could reach 69.0 TWh, 48 per cent of the total.

This is a huge hole for other power sources to fill. The difficulty has been exacerbated because "renewable" energy sources such as wind, solar and biomass have not become as commercially viable as was expected at the time of the 1980 referendum.

In fact, Sweden is being forced to try and reconcile a number of mutually incompatible objectives. It wants to be rid of nuclear power, but it is not prepared to dam more rivers in the north of the country to increase hydro-power generation. It cannot insist on renewables, but it knows that falling back on coal and gas would increase carbon dioxide emissions. Finally, it wants to maintain internationally competitive energy prices and protect jobs.

In other words, there are no easy answers. Heavy investments in coal and gas-fired power plants look to be the only realistic alternatives, but that could cost the country a staggering SKr200bn, according to some estimates.

The problems might eventually be eased by a broad deregulation of the Swedish, Nordic and even north European power markets. But the Social Democrats have just postponed deregulation of the Swedish market, which was due to take effect on January 1 1995, and the deregulation

of the north European market still looks to be some way off. For the moment, the issue is again on hold. A commission has been established to map out a realistic Swedish energy policy, covering everything from nuclear power to deregulation. Its task will be to detail the costs and environmental implications of the different solutions before the end of next year.

Power industry experts are convinced that the 2010 date will be dropped. "I have never thought the politicians would go ahead with the phase-out," says Dr Karl-Axel Edlin, president of Tentum, a Stockholm energy consultancy. "The safety of nuclear power has increased more than tenfold since the referendum and energy sources like wind-power and biomass are not going to fill the gap."

The assessment may well be correct - but that does not mean there will not be another political crisis over the issue or that one or two nuclear plants will not be sacrificed along the way.

Mr Sigfrid Leijonhufvud, author of *A History of Swedish Nuclear Power*, believes there could be another referendum on the issue. Alternatively, he suggests the deadline could be postponed as a gesture to some future political partner, such as the Liberals, if the minority Social Democratic government were forced into a coalition. But Mr Leijonhufvud notes that Mr Carlsson is "morally bound" over the 2010 deadline and believes it could even prove to be the issue on which the 60-year-old party veteran eventually decides to step down.

Karen Fossli reports on the Greens

Exploiting their leverage

After failing to break through the required 4 per cent threshold to enter the Riksdag (parliament) during the last three-year session, Sweden's fledgling Environment Party (Miljöpartiet) - popularly known as the Greens - captured 5 per cent of the vote in the September elections and see the party's future going from strength to strength.

The Greens find themselves back in parliament for the second time since they were formed in 1981 as the country's first new political party in 70 years. Their roots are in the so-called "alternative movement" which emerged in the 1970s to champion the causes of not only the environment, but also peace and women's equality while opposing nuclear weapons and energy.

They first entered the Riksdag in 1988 for a three-year parliamentary term, backed by a vote of 5.5 per cent. But, in 1991, the Greens scored at local level, winning 237 seats on 148 local councils which they tripled three years later to 698 seats on 260 out of 294 councils. They also forged ahead at regional level in 1989, when they won 101 seats and representation on all 25 county councils.

There were teething problems in the early days as the Greens seemed more a curiosity than anything else. But important political events such as the Rio Conference on the environment in Brazil in 1991 has boosted the credibility of Green parties worldwide with their main cause having been elevated to the international agenda.

In Sweden, the Greens' platform has changed little over the past 10 years, although it is now presented in a less idealistic and less fundamentalist tone. Among other things, they favour energy taxes - so-called environmental taxes or Green taxes - as a means to make pollution expensive, promote recycling and reduce traffic. They support a 35-hour work week so that more people can be put to work - Sweden's present 13.8 per cent unemployment rate is unprecedented since the second world war. They continue to push for rapid closure of Sweden's nuclear power plants and adamantly oppose plans for a hazardous waste disposal facility.

"Our return to the Riksdag did not represent the protest vote which some claim... it meant that when we were out of parliament the last time, people genuinely missed the fact that environmental issues had disappeared from the debate," said Ms Marianne Samuelsson, 49, a mother of three, joint leader of the Greens and an MP.

"When we were in [the Riksdag] before, the other parties saw benefits to gain votes by elevating environmental issues to their agenda. This was superficial. What happened on

the environment front during 1991-94 when we were out? Very little, if anything - and this did not go unnoticed by the electorate, particularly by women and youth," she said.

It was primarily women and the youth vote which propelled the Greens back into the Riksdag this year. Ms Samuelsson concedes that the Greens lost out in 1991 because of inefficiency and disarray. "We simply did not have our act together." But Greens throughout Europe hit a five-year low after 1988 which coincided with a right-wing wave of politics and from which they managed only this year to recover.

During the period when it was out of power, the party reorganised and did some soul-searching

according to political analysts. Sweden's Greens ran on an anti-European Union ticket for the September elections and this undoubtedly shored up their support ahead of Sweden's November referendum on EU membership which was opposed by almost half the electorate.

During the period when it was out of power, the party reorganised and did some soul-searching to regain its confidence which was battered by the 1991 defeat.

"The leadership in Sweden of the Green party has become more seasoned, more experienced and less fundamentalist than their earlier years. They have shown that they are a party with whom political deals can be struck," said Professor Sören Holmberg, at Gothenburg University where he is department head of political science and head of a special election studies team.

The Greens' joint male-female party leadership is meant to demonstrate that party commitments also include gender equality. Ms Samuelsson became co-leader of the party in 1992 together with Mr Birger Schlaug. The Greens have the highest proportional female representation in the Riksdag of any national party. The party holds 18 seats and is represented on 15 parliamentary committees.

The Greens are also members of the 20-country European Green Party Federation, and have endorsed its programme which rejects the Maastricht Treaty and the Western European Union. With Sweden's slim Yes vote on EU membership, the Green party intends, through the federation, to make its voice heard in Brussels, because the party has little faith that Ms Anita Gradin, Sweden's EU Commissioner, will make environmental issues a priority.

"I'm disappointed that Sweden did not get a person in Brussels who is engaged in environmental issues - Anita

Gradin simply is not," said Ms Samuelsson.

"The situation in Europe is developing one way - the wrong way. There is more traffic and more chemicals... the list goes on... and this cannot continue if we have any conscience at all about leaving the earth in reasonable shape for coming generations," she said.

The Greens advocate a referendum throughout the Nordic countries in either 1996 or 1997 on the EU's next phase of economic and monetary union.

"Basically, we oppose the EU's common economic and monetary policy - not all countries are equal - and as for the WEU, this is not a peace organisation. After the US, the EU is the world's second-biggest producer of weapons. This means weapons will remain high on the EU's agenda because Europe's economies depend on their production for revenue."

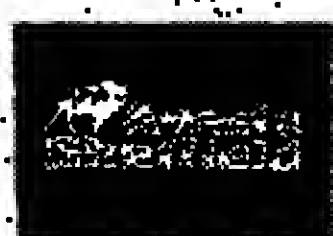
"Sweden has WEU observer status which means it will have access to all WEU information, undermining the government's claim of being 'alliance-free'. This also raises questions over the government's stand on a future common EU military force,

although the prime minister has suggested a referendum may be needed," Ms Samuelsson said.

Professor Holmberg believes that the Greens' anti-EU stance will benefit the party in the long run. "They were helped by the 'EU dimension' and the ongoing [EU] debate in Sweden will help their future as they try to slow Sweden's integration into Europe. Their main political competition is the Left party who they will always have to look over their shoulder to monitor... both of these parties have the most volatile voters in Sweden," he said.

The Greens believe their return to the Riksdag will strengthen the party's ties to the ruling minority Social Democratic party.

"They depend on the Left [party] for support for all the budget cuts and other proposals to reduce the deficit. They won't get support from the Left on many of their plans... which means they will have to rely on us," Ms Samuelsson said - a reminder that Sweden's political situation gives the Greens a degree of leverage in the Riksdag which they aim to exploit.



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Christopher Brown-Humes reports on the forestry industry

EU vote was critical

No other Swedish industry had more at stake in the country's European Union referendum than the forestry sector. Even people not directly involved in the industry – the country's biggest net exporter – agreed that Sweden's pulp and paper companies had much to lose if the country had stayed outside.

"For the forestry industry a 'No' would have been a catastrophe," says Mr Arne Martensson, chief executive of Svenska Handelsbanken.

The EU is the Swedish forest industry's biggest market by far. About 30 per cent of its existing capacity is located outside Sweden within EU borders. But the EU is also an important market for many of the country's other multinationals, so it is not simply a question of access.

What distinguishes the forestry sector is the continuing environmental debate, covering everything from recycling and waste management to clear-cutting (the practice of completely clearing whole swathes of forest land at one go) and eco-labelling. The Swedes felt they simply had to have a direct say in shaping policy in issues of such commercial importance to their companies.

The nightmare scenario for Sweden's pulp and paper sector would be an EU forestry policy that coupled maximum stress on recycling with maximum emphasis on the preservation of existing forest areas.

At its most extreme, that could mean Sweden having to import recycled fibre from the continent to meet EU rules on paper content. Or it could mean Swedish companies being banned from clear-cutting. Rules such as these, were they ever to be enforced, could raise costs in a country with enough natural handicaps already in the form of slow tree growth and long distances to markets. It could also hinder the access of Swedish companies to their main markets.

Swedish forestry executives say they have nothing against recycling, but they want a balanced view of its relationship with virgin fibre.

"Virgin fibre and recycled waste paper are two important components in the same system," says Dr Jan Remrd, director-general of the Swedish pulp and paper association. He also advocates a broader view of waste management, giving greater emphasis to energy recovery than has been the case until now. "There are limits to the amount of times paper can be recycled and sometimes the distances involved do not make it worthwhile. It would be a better idea

to take out the energy instead, producing heat and electricity which saves coal and oil," he says.

Pleased as they are by the outcome of the EU vote, it is already clear that membership will carry a cost for the forestry groups. Mr Göran Persson, Sweden's finance minister, has announced a series of new corporate, energy and environment taxes to help fund the estimated SKr20bn annual cost of Swedish EU membership.

Stora, Europe's biggest pulp and paper group, believes the measures will add as much as SKr230m to its annual costs, including the impact of higher social security charges.

But there is surprisingly little grumbling. That has probably got a lot to do with the fact that Sweden's pulp and paper groups have enjoyed a much better 1994 than they expected now that a strong cyclical recovery in the sector is under way. Profits have grown as rising prices and strong demand have driven up capacity utilisation and sales. The weak krona, cost-cutting and lower debt burdens have also contributed to the upturn. Prices are increasing for virtually

all grades of paper and paperboard – although the impact has yet to be fully felt in companies' profit-and-loss accounts. Long fibre pulp prices have doubled in little more than a year and are set to reach \$750 per tonne by January 1. Prices for fine paper, which has a high pulp content, have also climbed sharply, as have prices for sawn timber. In other segments, such as publication papers, the impact has been modest although big price rises are on the way.

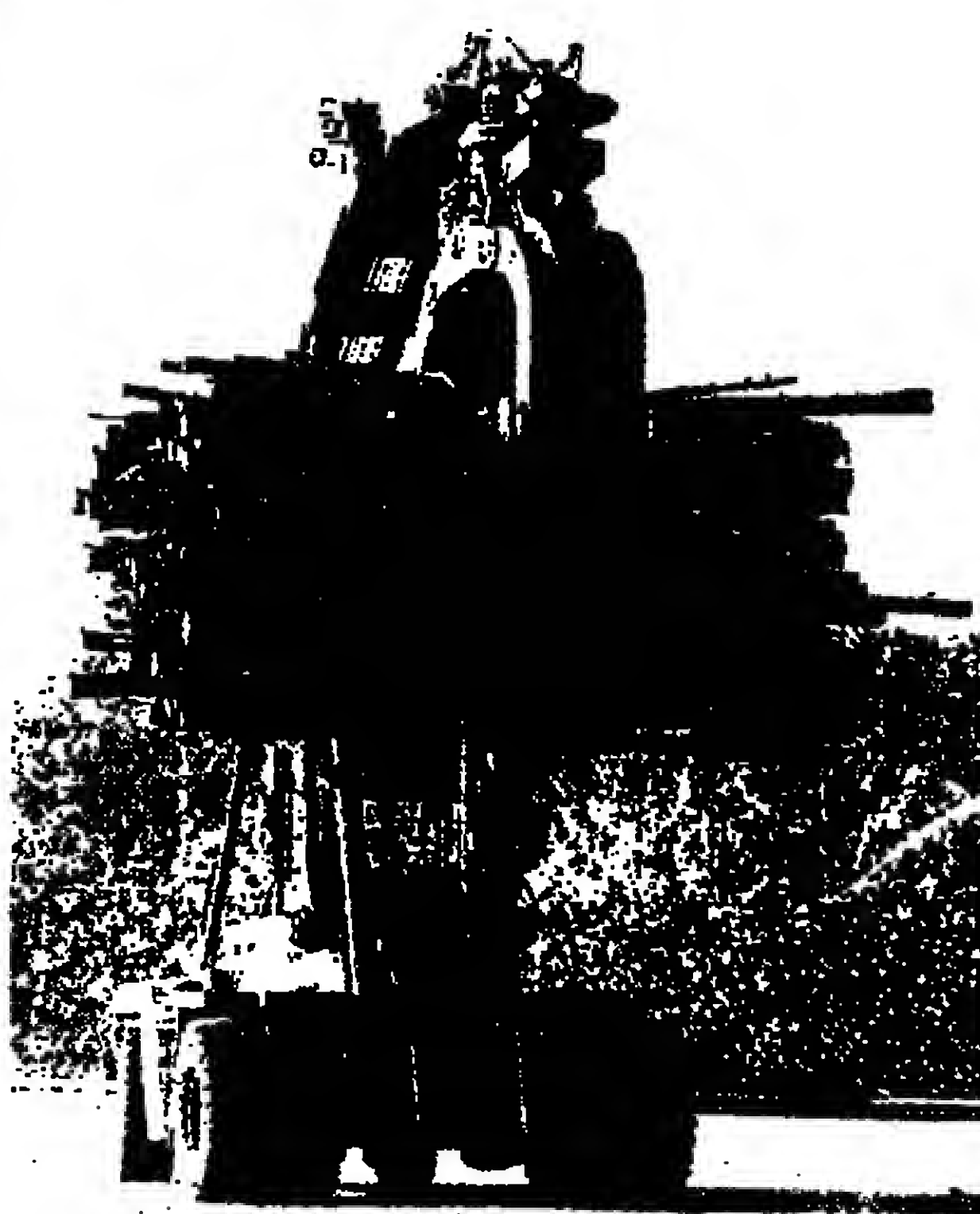
A picture of an industry making a rapid return to health, after three difficult years between 1991 and 1993, emerged at the nine-month stage. Stora announced a profit of SKr2.04bn, seven times higher than the SKr294m profit achieved in the same 1993 period. MoDo swung to a profit of SKr1.01bn from a SKr427m loss while SCA lifted profits to SKr1.58bn from SKr788m. The industry expects even better figures next year because of higher prices. With balance sheets also in much better shape, companies are starting to expand again, either by

acquisition or by building new capacity. MoDo has announced SKr3bn of new investments, including a SKr2.1bn outlay on a new newsprint machine at its Braviken plant in Sweden. Stora is considering a SKr2.5bn investment in a new board machine. Asidomän has agreed to buy MoDo Packaging in a deal worth SKr1.2bn.

Industry estimates suggest Swedish companies will invest as much as SKr6bn in 1995, about the same amount as they invested annually in the late 1980s at the last cyclical peak. This makes investors nervous because the downturn that struck the industry in 1991 was caused more by overcapacity than weak demand.

During the late 1980s and early 1990s, Swedish forestry groups invested heavily in the UK, Germany and France because they wanted to establish themselves close to their main markets. In the present expansion phase, there are signs that a greater proportion of investments will be concentrated at home.

This trend undoubtedly reflects the productivity gains achieved in the Swedish forest industry over the past few years. Dr Remrd says the new competitiveness and the need to exploit virgin fibre resources make it natural for the expansion to be in Sweden. "There is a need for more fresh fibre in the system and the waste paper trend is balancing out," he says.



Holmen plant, part of the MoDo group, at Norrköping. Picture: Fors Andrius

BANKING

Too much money: not enough borrowers

Two years ago Swedish banks had too little money and too many loans going sour. Today they have too much money and too few people wanting to borrow it.

It is a striking recovery, if a rather lop-sided one. Healthy profits are being made again but only because there has been a sharp drop in the volume of the credit losses which crippled the sector two years ago. Underlying results have actually deteriorated because of low credit demand, narrower margins and reduced profits from bond trading.

The pattern is clear from the results of two of Sweden's leading private-sector banks, Skandinaviska Enskilda Banken and Svenska Handelsbanken. SE Bank made a nine-month profit of SKr2.457bn, a huge improvement on SKr771m a year earlier, after credit losses shrank 44 per cent to SKr4.35bn. But the result before loan losses, after stripping out hefty capital gains, was down 17 per cent on 1993.

Handelsbanken achieved a SKr2.18bn profit – a 148 per cent improvement on last year. This was because a 59 per cent drop in credit losses to SKr2.14bn offset a

19 per cent fall in underlying results.

The drop in loan losses has been fuelled by Sweden's economic recovery and low short-term interest rates. As for the underlying performance, Sweden's banks are partly the victim of their own caution and partly of the general state of the Swedish economy.

Having been brought to their knees two years ago by reckless lending to an overheated property sector, they are now controlling their risk exposures more carefully.

At the same time, customers have shied away from taking out new loans because of weak private consumption, very high long-term real interest rates and reduced tax incentives.

The problem is that the banks have never been in a better position to lend

money. They have strong capital ratios after the recapitalisation programmes carried out last year and, due to high personal savings levels, deposits are accumulating all the time. This means that after being undercapitalised two years ago, they are now close to being overcapitalised. But if they are not to turn away deposits, they have to do something with their surplus liquidity. This has forced them to compete aggressively to lift market share – hence the narrower margins – and expand their investment portfolios at a time when the securities market has been turbulent.

This strategy has had painful consequences, particularly because of this year's bond market turmoil. Bond trading profits are down sharply from last year's levels, and investment portfolios have

been hit by the difference between market and purchase prices. The investment performance does not feed through directly into the profit-and-loss account – as it does in Denmark – but it does affect equity and capital cover.

Results are expected to improve further next year. Credit losses should continue to fall, even though short-term interest rates are on the rise again. Loan demand should also increase, particularly because of higher investments by the country's big exporters. However, state tax increases and spending cuts to curb the country's budget deficit will again hit private consumption, curbing loan demand from the household sector.

Banks are not just looking to more robust loan demand to boost their business. Services are being widened to include life insurance and more sophisticated banking products. SE Bank, for example, has bought the Diners Nordic credit card operation and set up an independent 24-hours-a-day telephone banking service. Handelsbanken has become the first Swedish bank to develop a flexible occupational pension scheme.

But competition is increasing. One of Sweden's leading insurers, Skandia, has

set up its own banking unit and the Post Office is offering a broader range of banking services.

Competition within the Nordic region is also intensifying. Both SE Bank and Handelsbanken are building up their operations in Finland and Norway. Other Nordic banks are also planning to set up branches in Sweden. The increasing cross-border competition was the main reason that four of the region's top banks broke up a 10-year co-operation venture, Scandinavian Banking Partners, during the summer.

The government has still not made any move to remove the blanket guarantee which it put on the entire banking system in late 1992 at the height of the banking crisis. There are several reasons for this.

One is that credit losses, though falling, are still not back to pre-crisis levels. Handelsbanken's loan losses are still running at 1 per cent of total lending, four times the level in the late 1980s. In addition, Föreningsbanken, one of the main banks, is still not back in the black.

Secondly, Swedish long-term interest rates are high, and they are likely to

remain so until the markets are convinced that the government has got the state debt under control.

Thirdly, the backing is supporting the banks' credit ratings. Finally, the support has helped to sort out the banking crisis debris. For example, when Securum, the state-owned entity set up to liquidate the failed loans of Nordbanken, arranged a SKr20bn refinancing in the autumn, its task was made easier by implicit backing from the Swedish state.

The banking crisis cost the Swedish state about SKr65bn in cash support. Some of this will be recovered by the gradual dismantling of Securum, its sister Retrieva (the "bad bank" for Gota Bank), and the return of Nordbanken to the private sector.

Nordbanken, which collapsed into state arms in 1992 as the biggest casualty of the crisis and has since been merged with Gota Bank, is due to be re-privatised some time next year.

Securum's progress over the past year shows that the legacy of the crisis is likely to be much shorter than was at first expected. The unit, which has converted virtually all of its sour loans into assets, seems likely to complete its liquidation programme within 10 years, having already sold SKr5bn out of SKr15bn worth of assets. It would like to have returned at least SKr10bn to the Swedish taxpayer by the end of the process.

Christopher Brown-Humes

Stockholm, built on a string of islands and promontories where the Baltic Sea meets the Mälaren lake, is a beautiful city by any standard. Its wealth of hand-some architecture and grand waterfronts make it one of northern Europe's most attractive centres.

The relative compactness of the heart of Stockholm means that even a busy business visit can savour much of what it has to offer. But to most outsiders it is still an expensive place with quirks that can

Travellers' guide

catch out an unwary traveller. How to get about: Beware the Middle Eastern-style bazaar for taxis at Stockholm's main "Arlanda" airport. Most taxi companies offer a reduced rate for the 40km ride to central Stockholm – of not more than SKr300 – but you have to fix the fare in advance. If the driver runs the meter, you will pay up to SKr600.

For those not pressed for

time, the regular bus service to Centralen, the central rail station, costs SKr50. If you stay in town, many appointments will be within walking distance of your hotel. If you are anxious to cut taxi costs, the Tunnelbana underground system is simple to use, efficient and cheap.

Where to stay: If you want to stay on the waterfront, the prime hotels are the Grand, the Strand and the Diplomat. All are within a short and pleasant walk of the main government offices and business area of the city. Two other big city centre hotels, the Sheraton and Royal Viking, can claim a waterfront view, but in reality are hemmed in by busy thoroughfares. For something cheaper and with more character try the Lady Hamilton or the Lord Nelson on Gamla Stan, the old town.

Where to eat: If you are a fan of salmon and herring, Sweden is the place for you. Otherwise, standard fare tends to be dull. A good value option for lunch offered in dozens of restaurants is *Dagens Rätt* – a set menu, usually including a light beer, for SKr45-SKr60. Lunch hour in Sweden is noon-1pm.

Stockholm also boasts a range of quality, up-market restaurants. The Smörgåshuset at the Grand Hotel is justly famous for its sumptuous spread. The Operakällaren at the Opera is good, but at lunchtime the Opera Bar is cheaper and more fun.

Two good restaurants in beautiful settings are the Ulla Winblad on Djurgården and the pricey Urskåda Wårdshus on Edsö. Be warned, however, that beer, wine and spirits prices in all restaurants are very high. Where to go: In summer take a

boat trip to the islands. Look for the ferry company information and ticket offices in front of the Grand Hotel (for the archipelago) and the City Hall (for the Mälaren). Vaxholm in the archipelago is a good destination for a day, or half-day trip.

Take a lake steamer to the royal palace at Drottningholm for a summer treat and go to the opera at the 18th century Drottningholms Slottsteater – but tickets for the opera are hard to get at short notice.

There are several good museums in Stockholm. In the city, Gamla Stan, the old town perched on an island, is a charming jumble of narrow streets and old houses where a little exploration will turn up interesting antique shops.

Other tips: Always check museum opening times in advance; Swedish tourist attractions have an irritating habit of being closed in the summer because all the locals are on holiday, and restricted in the winter because it is not holiday time.

In early August, Stockholm hosts its annual water festival – which is great fun, but also highly disruptive to normal business in the city centre.

In July, the city is all but dead as Swedes go on holiday *en masse*. Do not plan a business trip then.

In winter, there is no decent downhill skiing in the Stockholm area – but if you are a skater, visit in January and February. You could be in for the rest of your life – skating on the lakes and the sea.

Finally, there is still a state monopoly on the retail sale of alcohol. If you want to buy it, look for branches of the Systembolaget. They are only open to 6pm on weekdays and are shut at weekends; most do not take credit cards.

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SWEDEN VI

Profile: Saab-Scania

Profits have surged

Saab-Scania, the Swedish vehicle and aerospace group, is at last starting to produce the sort of returns that its owners, the Wallenbergs, must have hoped for when they bought the group in 1991, reports Christopher Brown-Humes.

Profits have surged this year, after two dismal years in 1992 and 1993, driving the broader recovery of investor, the key Wallenberg holding company which wholly owns the group. In the first nine months, Saab-Scania achieved an operating income of SKr2.3bn, a spectacular increase from only SKr1.06m in the same 1993 period.

Spectacular, perhaps, but a performance nevertheless which mixes "wine with water," according to Mr Lars Kylvberg, Saab-Scania chief executive.

The "wine" is Scania, the world's fifth-largest truck group, which has benefited from a strong revival in demand and soaring sales.

The "water" is the group's commercial airline business which has suffered heavy losses amid plunging sales and orders.

The commercial aircraft division is, undoubtedly, the group's immediate headache because this year it is only likely to sell 15 of its turbo-prop aircraft, against the 50 which it needs to sell to break even.

The group produces two airliners, the Saab 340, which can seat 30-39 passengers, and the Saab 2000, a newer model seating 40-60 passengers.

General market overcapacity has caused problems not just for Saab-Scania, but for many of its competitors. Indeed, it is this general state of distress that leads Mr Kylvberg to believe that a far-reaching solution - nothing short of an European Airbus-type consortium in turbo-props - might be possible. "If I had a single New Year wish, this is what I would really like to happen in 1995," he says.

The members of Mr Kylvberg's mini-Airbus consortium would be Saab-Scania, British Aerospace, ATR, the French-Italian group, and Germany's Deutsche Aerospace. Forging a collaboration would provide Europe with real clout in its battle with overseas competitors such as Canada's Bombardier and Brazil's Embraer, he argues.

But there is a long way to go and even if agreement can be reached between the four parties, the European competition authorities may not like it. If the venture fails, Mr Kylvberg maintains that Saab-Scania can still soldier on on its own, although it is not a prospect which he relishes.

Apart from anything else, he feels the group is at a competitive disadvantage because it cannot offer some of the export credits and other soft financing mechanisms that its rivals can.

Saab-Scania is also seeking to build a strong international alliance for its fighter aircraft, the JAS 39 Gripen. The project has been hit by delays and cost-overruns, and last year suffered the trauma of a high-profile crash during a Stockholm air display.

The group has a healthy order book from the Swedish air force for the aircraft, a multi-purpose reconnaissance and attack fighter, but full commercial success will only come with export orders. That is



Saab-Scania's aircraft manufacturing plant at Linköping. Picture: Tony Anderson

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why Saab-Scania wants an overseas partner.

The company in question is almost certain to be British Aerospace. The two companies have talked for more than a year and a final agreement in the form of a sales and marketing joint venture is likely to be announced during the spring.

Bae has a strong historic position in a number of the markets which Saab-Scania would like to penetrate, including Middle Eastern and Far Eastern countries.

The British group's help in producing an "export" version of the aircraft, which could be adapted to local conditions, is also being sought.

Saab-Scania is definitely not seeking a partner for its Scania bus and truck division, which has consistently proved to be one of the world's most profitable operations in this field.

Scania has a number of basic strengths, including modular construction (using the same

core module for different truck models) and a strong dealer organisation.

In the past year these advantages have been enhanced by the weakness of the krona and recovering demand and the group has been able to take market share. European production has doubled to 140 trucks a day from 70.

Underscoring the upturn, Scania's sales surged 34 per cent to SKr18.8bn in the first nine months while its order intake jumped 61 per cent to 28,100 trucks and buses. The unit's operating margin reached 14 per cent, about twice the level of Volvo Trucks, a highly-regarded competitor.

Scania's achievements are the more remarkable for the fact that it has not produced a completely new model for many years, contenting itself instead with a gradual refinement of existing models. Mr Kylvberg declines to discuss industry rumours suggesting a new model may come as early as next year.

Scania's present production and sales strongholds are Europe and Latin America. It has consistently shied away from the North American market, saying its sixth manufacturing plant - it has three in Europe and two in Latin America - is likely to be in Asia. "We see Asia as our third region," says Mr Kylvberg.

Saab-Scania retains a 50 per cent stake in Saab Automobile. This is essentially a financial investment because management is carried out by the other joint owner, General Motors.

There have been rumours that Saab-Scania will sell out, but Mr Kylvberg denies it. "We have a good co-operation with GM and wish it to stay like that," he says.

Besides, the group is at last earning money from Saab, which will make its first profit for six years in 1994.

Mr Kylvberg does not believe the group is spreading itself too thinly by operating in so many sectors with huge capital requirements. He says vehicle-making is the group's traditional business - Scania is 100 years old and Saab is more than 60 - and that is where its expertise lies. In other words, he is happy with the basic structure of the group.

The only difference is that by the year 2000 he hopes to have several strong international partnerships in place to share some of the burdens.



The secret weapon in Stena's armoury: an artist's impression of the HSS Highspeed Sea Service ferry, which will halve normal travel times

Profile: Stena Line

A remarkable comeback

For a company that was in crisis and making heavy losses only three years ago, Stena Line, the world's biggest ferry operator, has staged a remarkable comeback. Despite difficult market conditions in both its Scandinavian and UK markets, it is heading for a record SKr500m profit in 1994 and it is once again planning significant fleet investments.

The severe difficulties experienced earlier in the decade were caused by the company's \$570m purchase of Sealink, Britain's second-biggest ferry operator, in 1990. The move left it with huge debt-servicing costs and a need to undertake important restructuring in the newly-acquired operation. The Gothenburg-based company even threatened to close Sealink entirely, barely 18 months after the purchase in a move to force unions to accept drastic cost-cutting.

If Stena ever shared the widespread view that it had overreached itself, these days it has no such doubts. Mr Bo Levenius, Stena Line president, says: "It was a bold move, but strategically it was definitely the right one." What has changed is not just the outlook for Stena Sealink, but the broader financial recovery which the whole group has staged over the past three years.

It got out of its crisis by hacking back costs, launching a hefty rights issue and convertible loan, and reining in investments. Together with rising profits and increasing cash flow, the group has been able to pay a substantial part of its debt. It is now confident of getting its equity-to-assets ratio back to the pre-Sealink purchase level of 30 per cent by early next year.

Stena today carries more than 14m passengers a year on 15 routes in 32 vessels. The irony is that the UK routes have ended up supporting the group at a time

when its Scandinavian business has suffered from recession and the weak Swedish krona. Passenger numbers on UK routes climbed 10 per cent in the first eight months of this year, while Scandinavian routes saw a 1.4 per cent decrease.

Conditions in both markets have been difficult. In the UK there has been a price war in the run-up to the full start-up of the Channel Tunnel. In Scandinavia, consumer spending has fallen and there has been a sharp fall in travel on some routes in the wake of the Estonia tragedy.

Given that Stena has some 34 per cent of the British passenger shipping market - second only to P&O - it cannot afford to be complacent about the Channel Tunnel. Its main UK route, Dover-Calais, will be competing head-on with tunnel traffic.

Stena is sceptical about Eurotunnel's assumptions that it will eventually gain some 30 per cent of freight traffic and 50 per cent of cars on short-sea cross-channel routes, but it is basing its strategy on them nevertheless.

One solution would be for it to seek an extensive collaboration with P&O, although this would have to meet with the approval of the relevant competition authorities. In any case, it expects the overall market to grow, helped by economic growth in both Britain and France.

Nordic ferry traffic has been hit hard by the sinking of the ferry Estonia, which capsized in heavy seas in September with the loss of more than 900 lives. Stena has suffered less than other shipping groups, partly because it does not operate in the Baltic Sea where the tragedy occurred. The company's passenger volumes in the Swedish and Norwegian markets fell by 12-14 per cent during October and November, although there are now signs of recovery.

Stena, like other ferry operators, is

bracing itself for some tough new safety regulations in the wake of the tragedy. Although these will add to costs, it believes the impact will be neutral in competitive terms because rivals will have to implement the same measures.

The secret weapon in Stena's armoury is undoubtedly its revolutionary HSS Highspeed Sea Service project, which it has developed with its main owner, Stena AB. Three fast ferries, which will halve normal travel times, have been ordered from a Finnish yard and a fourth is planned. "We are quite convinced that this will change ferry traffic a great deal," says Mr Levenius. However, some observers regard the project as technically risky, and at a total estimated cost of SKr3bn, it is certainly an ambitious investment.

It is the first time that high-speed ferries will be able to carry lorries, trailers and buses alongside passengers and cars. The boast is that they will offer a degree of comfort and reliability which present fast vessels, such as catamarans, can not. The first of the Finnish-built vessels, which will each be able to carry 1,500 passengers, is due to enter service across the Irish Sea next September.

A lot is riding on the success of the ships, not least because they are an element in the group's overall strategy of enhancing the transport-derived portion of its revenues. The aim is to gradually reduce the company's dependence on duty-free sales which are due to be phased out under European Union rules in 1998.

Already Stena has reduced the proportion of on-board income (including duty-free) as a percentage of total operating income from 65 per cent in 1988 to less than 35 per cent today.

Christopher Brown-Humes



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Andrew Baxter reports on manufacturing industry

Big productivity increase



Back on top, thanks to a dramatic recovery in profits. Picture: Tony Anderson

Profile: Volvo

Firmly embarked on new strategy

"Firing on all cylinders." "Up to speed again." "Back in top gear." To the relief - and pride - of most Swedes, the motoring metaphors have been flowing thick and fast this year for Volvo, the country's biggest manufacturer.

Thanks to a dramatic recovery in profits, memories of the ignominious collapse at the end of 1993 of Volvo's plans to merge with France's Renault have faded fast. Volvo returned a 12-fold growth in pre-tax profits in the first nine months of the year to record a surplus of SKr12.7bn, on turnover of SKr12.2bn.

Under the energetic Mr Sören Gyll, the chief executive who has emerged as the new dominant figure in Volvo, the company is firmly embarked on a new strategy to focus on its core vehicle-making operations. By the end of 1996, it intends to have sold off all its non-core assets, raising a total of some SKr4bn to finance the future development of cars and trucks.

Today, there is a widely-held view in the industry that Volvo Truck Corporation is already in strong shape. At the nine-month stage, worldwide unit truck sales were up 38 per cent at 49,400, delivering a jump in operating profits to SKr2.7bn that produced an operating margin of seven per cent.

The big question mark, however, hangs over the future of Volvo Cars, the biggest division by sales value and the real heart of the company in the eyes of a nation which has always regarded Volvo as Sweden's industrial flagship.

The car corporation also produced a big improvement in the first nine months: unit sales, at 289,600, were up 18 per cent; operating profits went from near break-even to SKr1.95bn. But Mr Gyll was quick to admit that the operating margin of 4 per cent, achieved as Volvo approaches the top of the business cycle, fell far short of the 7 per cent average he says the car division needs to achieve over a complete cycle.

Uncomfortably for Volvo, it is setting out to achieve this as a niche player in the worldwide car industry at a time when the trend among its competitors has been towards building volume.

Volvo is now one of the world's smallest producers of mainstream vehicles, with a basic range of just three cars in the 600, 800 and 400 series. Many in Sweden who argued against the merger with Renault said Volvo should set out to become a "Swedish BMW". Within months of Volvo choosing that path, however, the German carmaker itself opted to make a quantum leap in its volume output by buying Britain's Rover.

Mr Gyll and Mr Per-Erik Mohlin, head of the car divi-

sion, are well aware of this background. But they argue that there are still opportunities for a manufacturer of Volvo's size - Mr Mohlin says he is aiming for optimum output of 500,000 cars a year - given its powerful brand name and the vital ability of smaller manufacturers to use modern production techniques to be more responsive to customer demand.

On the marketing front, Mr Mohlin intends to stretch Volvo's traditional appeal to family car buyers - primarily through its famously roomy estate cars - to what he calls "pre-family" and "post-family" buyers. The intention is to build on Volvo's reputation for safety, reliability and environment-friendly mental friendliness to embrace at the same time greater "drivability", with more emphasis on performance.

The implication of this for production is for sportier models, with more attention to interior comforts. Volvo is not about to abandon estate cars, but it will concentrate harder on producing attractive saloons that get away from the "boxy and boring" image of the past - and give greater added sales value. The trail has already been blazed to some extent by the successful 850 model, one in four 850s sold are the turbo-engined version.

Volvo also has to decide whether to make a belated response to four-wheel-drive vehicles on performance. The implication of this for production is for sportier models, with more attention to interior comforts. Volvo is not about to abandon estate cars, but it will concentrate harder on producing attractive saloons that get away from the "boxy and boring" image of the past - and give greater added sales value. The trail has already been blazed to some extent by the successful 850 model, one in four 850s sold are the turbo-engined version.

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Rather, Mr Mohlin says, Volvo will probably cut down from three basic "platforms" - or chassis - to two; the 800 and the medium-small sized 400 series. The 400 series is produced in the Netherlands in a joint venture with Japan's Mitsubishi. From these, Volvo will seek to produce a more varied range of models.

"We know it is possible to develop more cars from a single platform. The trick is to utilise common components, but to differentiate the products," Mr Mohlin says.

He says the aborted merger with Renault has cost Volvo more than a year in its vital programme to develop new models. This has increased the pressure to produce a successful formula that will carry Volvo over the next downturn in the cycle and prove that it can thrive as an independent carmaker.

The headline writers will be no less ready with their clichés if it fails. "Volvo stalls", "Breakdown", and "Running out of fuel" are the banners Mr Gyll and Mr Mohlin are determined to avoid.

Hugh Carnegie

Management and employees in Swedish manufacturing industry deserve much of the credit for a transformation in the country's industrial competitiveness since the early 1990s, but their own efforts and government policy will dictate whether further progress can be made.

Two important factors have transformed the competitiveness of Swedish industry, according to Mr Magnus Lemmel, director-general of the Federation of Swedish Industries. The first is the Swedish krona's *de facto* devaluation of 25 per cent in the past two years, which has restored manufacturers' ability to compete in the European market.

The second change, says Mr Lemmel, is a big increase in industry's productivity over the past few years. In the long term, this is more important, he says. The krona may rise in value, but the effects of increased productivity will endure.

The increase in productivity has come through a mixture of government and industry efforts. Cuts in sick-leave benefits made by the former, pre-1991 Social Democratic government had a very important effect, reducing absenteeism by about 20 per cent.

Since then, the recession across much of Sweden's industrial sector - whether export-oriented or reliant on the domestic market - has led to big reductions in employment. "We are now producing more, with much less labour," says Mr Lemmel.

Prompted partly by the downturn, important internal improvements in manufacturing have come, with better management, logistics, and flow of goods, all designed to raise productivity. Labour-management relations are much improved, and discussions are conducted in a good atmosphere, he says.

Mr Lemmel might be expected to promote Swedish industry's achievements but his views are corroborated by observers of the Swedish industrial scene. Mr John McDowall, a British Steel executive director, has been making monthly trips to Sweden in the past year as chairman of Avesta Sheffield, the Anglo-Swedish stainless steel producer. He says he is very encouraged by the company's productivity improvements and the positive attitude of workers and trade unions.

Mr Lemmel is now looking to Sweden's new minority Social Democratic government to "do the right things" to ensure that the business climate remains favourable. A crucial factor, he says, will be the extent to which reductions in the budget deficit are achieved through spending cuts rather than increased taxes, and "judgment day" will be January's budget.

"So far, the emphasis has been on raising taxes, but the balance needs to be changed," he says. Increased taxes on employment, for example, would hamper industry's ability to grow.

The recent retrenchment and

reorganisation in Swedish industry, and the current attitude of multinational companies to manufacturing there, is well illustrated by the experience of two companies with deep Swedish roots, but whose global headquarters are abroad.

Asea Brown Boveri, Europe's largest electrical engineering group, employs about 27,000

people in Sweden, a reduction of about 3,000 since 1990-91. The reductions, it says, took place mainly in those businesses affected by the domestic recession, notably in the construction market.

As a manufacturing base, it says, Sweden's situation is now very favourable. "We have a cost base that makes us very competitive in the international market, not least thanks to the krona situation."

But it stresses that the weak krona is only part of the story. A special export campaign, and Swedish ABB's much-admired T50 customer focus programme, presided over by Mr Bert-Olof Svanholm, its chief executive, have laid the internal foundation for success.

As an example of what the process has achieved, it cites ABB Stal in Finspong, which

Meanwhile VME Group, the Brussels-based producer of construction equipment, has reduced its Swedish workforce from about 6,500 in 1989 to 4,400, and closed three plants, at Landskrona, Lund and Karlskrona (the last two came with the acquisition in 1991 of Akermans, the hydraulic excavator producer).

The closures were part of a worldwide reorganisation in response to the recession, says Mr Tuve Johannesson, president and chief executive. They were accompanied by significant restructuring of the factories that remained, to increase productivity and shorten lead times.

With a reduced manufacturing base, the recent upturn in sales has led to a dramatic improvement in profitability, in the form of a \$300m turnaround out of the red over the past two years.

Mr Johannesson says that Swedish industry was "completely lacking in realism" in the late 1980s and early 1990s, and "only started to sober up during the recession." Now, he says, there is good reason to be "fundamentally positive" about Sweden as a country in which to invest and manufacture.

He too, though, is worried by the new government's attitudes to business taxation, and the possibility of increased income tax.

Another concern, says Mr Johannesson, is the possibility

of renewed "imported inflation" because of raw material shortages and the present weak currency. Increased inflation would automatically stimulate a renewed debate on wages, and a return to bad habits.

Any rise in the krona over the next few years - as a result, perhaps, of tough action to control the budget deficit - would reduce the cost of industry's imported raw materials. That would partially offset the reduced benefits for exporters, which in turn would encourage manufacturers to continue raising their productivity.

The bright outlook for manufacturing, notwithstanding the concerns about government policy, has been enhanced by last month's referendum on Sweden joining the European Union.

Large international companies such as ABB and VME say the positive result has removed a risk that would have had to be assessed when making a long-term investment decision. Slowly, investments in Sweden would have declined in favour of EU countries.

In terms of business opportunities, though, the real beneficiaries are likely to be Sweden's smaller engineering sub-contractors, says Mr Thomas Ölder, president and chief executive of Svedala Industri, the big mineral processing and construction equipment group.

"It would have been very easy for us to have slowly moved more manufacturing into other countries," he says. "Our sub-suppliers at home would have been the ones to suffer."

Profile: Kalmar Industries

Master of its own destiny



Kalmar is the world's largest producer of heavy lift trucks - which pick up and stack laden shipping containers

container handling, in ports and terminals, which is non-cyclical. The forestry and steel sector markets account for 40 per cent, but are very cyclical.

Mr Svantesson has important geographic targets too. North America accounts for 5 per cent of sales, but he aims to grow that to 15 per cent.

The company is looking closely at how to expand in the three leading Latin American markets of Brazil, Argentina and Chile, but the big growth prospect is Asia, he says.

The region accounts for 13 per cent of sales, but this could grow to 20 per cent, says

Mr Svantesson. China's huge planned expansion of port capacity is potentially good news for Kalmar's sales of container-handling lift trucks, but other Asian countries also represent tempting prospects.

At present, Kalmar is happy to be manufacturing all its machinery in Sweden,

although production in Asia is not ruled out if demand warrants it.

With 90 per cent of its sales outside Sweden, the krona's devaluation has helped sales of light and medium-sized trucks, where competitors typically produce in countries with strong currencies such as Japan and Germany. In contrast, Kalmar's competitors on the heavy side are mainly from nations with weak currencies such as Finland, Italy or Sweden itself.

Along with many Swedish businessmen, though, Mr Svantesson is in favour of a stronger krona - which would be a sign that the government is grappling with the budget deficit. Also, he notes, 55-60 per cent of the production value of Kalmar's lift trucks products is bought in from suppliers, and half of that comes from abroad.

If the krona does rise, Kalmar will have to continue raising productivity to remain competitive in overseas markets. Mr Svantesson makes clear that the company will not be resting on its laurels: further efficiency gains can be made at the Swedish plants through improved production flows and other changes - without huge investments, he says.

Andrew Baxter



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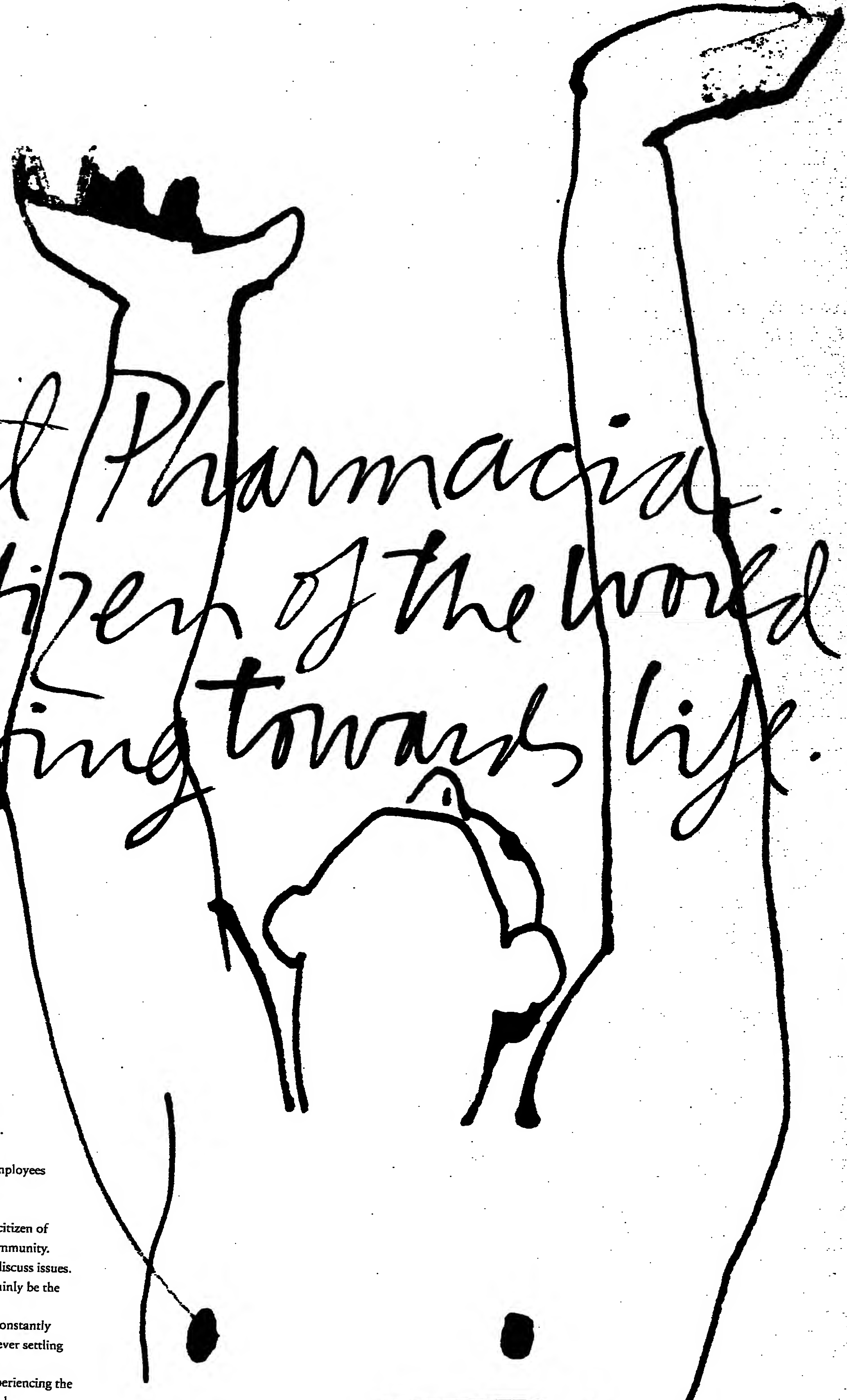
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